Exploring Post-Merger Integration Issues in China: Comparative Case Studies of Pharmaceutical Companies

by

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Glossary

Abbreviation	Full Name/ Definition
M&A	Mergers and Acquisitions
SOE	State-Owned Enterprise
TVE	Township and Village Enterprise
JV	Joint Venture
WTO	World Trade Organization
GMP	Good Manufacturing Practice

Abstract

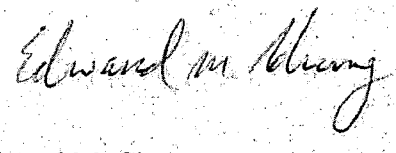
The study aims to explore the critical issues facing practitioners in post-merger integration (PMI) involving Western and Chinese pharmaceutical companies and to address the strategic management aspects that should be addressed to ensure merger success and synergy realization. By drawing on specific issues, actions/solutions, and outcomes in the post-merger integration of operational/ functional areas, new understanding on strategic management decisions and actions in pre-deal diligence and post-merger integrating process can be generated to explain merger success or failure. The objective of this research is, therefore, to provide more in-depth and substantive propositions to practitioners in Chinese pharmaceutical mergers and acquisitions to achieve successful post-merger integration.

The study has demonstrated the application of the integrative model, based on the mergers and acquisitions (M&A) integration framework of Larsson & Finkelstein (1999) and other theorists on the Chinese context, to various degrees of success. It has been shown that there are problems involved with applying Western integration models to Chinese companies, due to some Chinese management practices and the influence of the state during the state-owned-enterprise reform process. As shown by the case studies of this research, the post-merger integration process and merger success in terms of synergy realization and shareholder value creation are closely related. Chinese company leadership with more M&A expertise from prior learning experience, as well as its good relationship (guanxi) with the state, is of great importance in securing good M&A deals and positive outcomes from integration with the former state-owned enterprises (SOEs).

It is hoped that the study has provided a framework for understanding why certain mergers and acquisitions fail in China and how that can be improved. In essence, this research has made a contribution to knowledge about the theory and practice of M&A in the China context as its findings were based on the input of ten top pharmaceutical executives and their senior staff. Due to the sharp increase in mergers and acquisitions in China, the study will help to shed light for future studies that will benefit academics and practitioners alike. Moreover, the study has also demonstrated good opportunities for conducting case study research through interviews in Chinese companies today.

Declaration

I declare that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or diploma in any university; and that to the best of my knowledge it does not contain any materials previously published or written by another person except where due reference is made in the text.



Edward M. Chung July, 2005

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Chapter One – Introduction

This chapter aims to provide an overview of the main subject and the theoretical backgrounds of this research. Through a review of the major research trends on post-merger/acquisition integration in the literature, the research purpose and research questions of this study are introduced. This chapter will also provide background knowledge on enterprise reform in China and its related mergers and acquisitions from which context the main case studies of this research were based upon. Lastly, the limitations and some possible strengths of this study will be stated before concluding with a description of the structure of the thesis.

1.1 Background to Study

A merger is defined as a combination of two or more organizations through pooling of common stock, cash payment to the company being acquired, or a combination of both (Johnson 1999). According to Johnson (1999), a merger is called an acquisition when one of the firms in the transaction, usually the larger, takes over the other company and consolidates the two organizations into a single entity. The major difference is that in the case of acquisition, the acquirer's name is usually retained and control of the decision-making process rests almost entirely with the acquirer. However, in either a merger or an acquisition, a post-deal integration process is absolutely necessary where proper planning, open communications and decisive action will be crucial for the success of the combined entity. Therefore, in this study of post deal integration issues and solutions, mergers and acquisitions will be treated as similar transactions ignoring the difference in accounting or tax treatment between them. The term "post-merger integration" will encompass "post-acquisition integration" as well.

The recent wave of worldwide merger and acquisition (M&A) activity beginning in the

1990s, although slowed down at the beginning of 2001, is the largest in history and is being driven by globalization, technological change, and market deregulation and liberalization. This latest wave appears to be strategic compared to the conglomeration movement of the 1960s (Schweiger 2002a). China became the largest host country of foreign direct investment (FDI) of the world in 2002 when more and more foreign enterprises are looking strategically to merge or acquire local companies in order to gain market share, increase access to new regional markets, and achieve competitive size and economies of scale (Heytens 2001). Besides, local Chinese companies also undergo mergers and acquisitions in a nationwide effort of state-owned-enterprise reform. Thus, the Chinese M&A market, though relatively new and small in size, will assume explosive growth in the near future and be worthy of a lot of attention from both academics and practitioners. However, so far, very little research has been done on Chinese M&As.

The overall success rate of major M&As is generally not high as researches over the last fifty years indicate. Despite favorable conditions such as globalization, deregulation and advancing technology, the success rate for cross-border deals involving foreign host countries especially has been low. Poor post-merger integration has been cited as the cause of most of the failed M&As (Lajoux 1997). The perceived synergies are easier to calculate than to realize (Sirower 1998). Schweiger & Very (2003, p. 3) explain that "unless a buyer can utilize the acquisition to improve the cash flows of either the target, itself, or both, value or synergy cannot be created. Schweiger (2002b) suggests four basic sources of synergies: cost, revenue, market power, and intangibles. However, as interventions in organizations, M&As can also cause disruptions that destroy the intrinsic value of a firm, or negative synergy. Cross-border mergers only magnify the need for pre-deal due diligence and careful integration planning and execution. (Smith & Liu 1999)

1.2 Post-Merger Integration – A Short Introduction

Post-merger integration of resources and processes aiming at fulfilling stakeholder commitments is currently considered to be the hottest new field in mergers and acquisitions. Sound strategies and practices on handling the details of integration are deemed to account for the difference between M&A success and corporate growth or financial disaster. However, despite its importance, post-merger integration is still under-researched in the Western world and severely under-developed in the Chinese context. Evidently, learning from case studies on integration problems and critical success factors for M&A is very important for the Chinese pharmaceutical industry where a few thousand firms are expected to merge or be acquired within the next few years.

Mergers and acquisitions have been studied over the last few decades through several theoretical perspectives as discussed by Larsson and Finkelstein (1999) and Papadakis (2005). First, the field of strategic management has studied M&A as a method of diversification focusing on the motives (Trautwein 1990; Walter & Barney 1990; Brouthers, Van Hastenburg, & Van Den Ven 1998) and performance of the various types of combinations (Seth 1990; Datta, Varayanan, & Pinches 1992). Second, research in economics has emphasized such factors as economies of scale and market power as motives for M&A, and has examined performance with mostly accounting-based measures (Ravenscraft & Scherer 1987; Andrade, Mitchell, & Stafford 2001) Third, finance researchers have studied M&A performance using stock-market-based measures (Jarrell et al. 1988; Bouwman & Fuller 2003). Fourth, organizational research has focused on the post-merger integration process (Haspeslagh & Jemison 1991; Carr, Elton, Rovit, & Vestring 2004), highlighting both culture clash (Buono & Bowditch 1989; Marks 1997), and conflict resolution (Mirvis 1985; Legare 1998). Finally, human

resource management (HRM) literature has emphasized psychological issues (Astrachan 1990; Marks & Mirvis 2001), the importance of effective communication (Gall 1991), and, how M&As affect careers (Schweiger & Walsh 1990; Stehl, Smith, & Omura 1990). Also, scholars (e.g. Drucker 1981) have recommended that key operating and staff people need to be involved during the process leading up to the merger. M&As are clearly multifaceted phenomena that are poorly understood through incomplete and partial application of theories from separate fields (Larsson & Finkelstein 1999).

Taking a broad ***process*** perspective, Larsson & Finkelstein (1999) reason that it is possible to integrate the issues into a comprehensive model that views M&A performance (conceptualized as ***synergy realization***, the actual net benefits in terms of reduced costs and increased incomes created by the interaction of two firms involved in a merger or acquisition) as a function of combination potential, organizational integration and employee resistance. Their piece of research synthesizes several theoretical perspectives into an integrative model with clear management relevance. On the subject of post-merger integration, Larsson & Finkelstein conceptually divide organizational integration into (1) the degree of interaction between the joining firms through, for instance, restructuring, and material flows and (2) the extent of coordinative effort to improve the quality of that interaction through special integrators, transition teams, preplanning, and so forth. Larsson & Finkelstein also argue that employee resistance, defined as the individual and collective opposition of employees (both actively and passively) to the combination and subsequent integration of the joining firms, is associated negatively with M&A performance.

More emphasis on the organizational and process perspectives is evidenced by recent research. Appelbaum, Gandell and Shapiro (2000a, 2000b) of Concordia University, Montreal, Canada wrote a two-part paper, "Anatomy of a Merger: Behavior of

Organizational Factors and Processes throughout the Pre- During- Post-Stages" with five other professionals from the private and government sectors. In the paper, the multiple organizational factors impacting on a merger as well as those processes being impacted on throughout the merger process are examined. The authors argue that ***managing*** a merger assumes significant effort and dedication from top executives and managers. They recommend seven ***strategies*** that a manager needs to adopt throughout the entire process. This paper "provides an up-to-date, detailed literature review as well as a solid theoretical framework for analyzing the behavior of organizational (inclusive of human resource) factors and processes in mergers and acquisitions" (Appelbaum et al. 2000a, 2000b).

Again using the ***process*** perspective, Very and Schweiger (2001) attempted to identify key problems faced and solutions employed by acquirers during the stages of the acquisition process for domestic and international deals. Previous research studies explained poor M&A performance (most deals do not create value) by a failure to adequately manage the acquisition process. Interpreting the results from a learning perspective, Very & Schweiger propose that the acquisition process can be understood both as a ***target learning process*** applied to the focal deal and as a ***learning/ experience accumulation process*** aimed at improving the acquisition itself. The use of a ***learning perspective*** could help acquiring top managers to effectively design their acquisition team and define its role in this ***double-level learning*** process. Furthermore, results indicate that both forms of learning are affected by an acquirer's experience in a particular target country.

Two quite recent studies shed light on integration problems and turnaround strategies in cross-border M&As and key drivers and success factors for M&A strategies relevant to the pharmaceutical industries. Belcher & Nail (2000) examine the 1995 merger between

Upjoin of the United States and Pharmacia of Sweden. The clinical study explores the many integration problems and the turnaround strategies used to counteract them. Schweizer (2002) analyzes the different post-merger integration strategies (absorption, symbiotic or preservation) employed and concludes that the most critical factors are the existence of a powerful integration manager, extensive personal communication and a cultural fit.

The above are the major conceptual models used in this study of pharmaceutical M&As in the China context. It is hoped that refinements to these existing conceptual models can be suggested based on the findings of the empirical research. Details will be discussed in the final chapter of this thesis.

In November 2001, China established her Global M&A Research Center, an affiliated research body with the Chinese Academy of Social Sciences. So far, four China Mergers and Acquisition Yearbooks (2001-2004) have been published with detailed reports of the M&A deals transacted in various industries during the respective prior years. The emphasis tends to be on the legal proceedings and financing strategies rather than the integration processes. Also, among over one hundred Chinese foreign direct investment (FDI) and M&A books in addition to numerous articles published by reputable academic journals inside China, extremely few of them focus on the post-merger/acquisition process for which issues should be addressed in order to achieve M&A success.

1.3 Privatization and Enterprise Reform Related Mergers and Acquisitions in China

Privatization is defined as "the partial or total transfer of an enterprise from public to private ownership," (Bös 1991, p.2). Since the early 1990s, privatization has become an

integral part of industrial policy in many developed as well as developing economies. A major goal behind privatization is said to be the improvement of efficiency in terms of achieving higher productivity and lower-cost production (Parker 1995). Such economists of the neo-classical school as Sachs (1992) and Kornai (1992) argue that private ownership brings capital and market pressures into inert and inefficient state-owned enterprises. Thus, it is a fundamental belief of the neo-classical school that private property rights, coupled with a competitive market, maximize the incentives for management to achieve a high level of operational efficiency.

Privatization is especially a very complex issue for China, given her Communist political ideology and her gradualist market-oriented economic reform. Since the 1980s, China has carried out experiments in stock corporations and private ownership. Due to the predominant political ideology of Communism, the term "privatization" is still a "taboo" in China as the concept of private ownership has yet to be clearly defined and protected by law (Tsai 1998). Hence, the process in which state-owned enterprises (SOEs) are converted into stock corporations, which may subsequently be listed in the stock market is described as "corporatization". In this study these terms will be used interchangeably because in the Chinese context, corporatization is in essence privatization.

Over the course of economic reform and with the proliferation of private and township and village enterprises, many state-owned companies were found making heavy losses. In 1997 at the Fifteenth National Party Congress, the Party approved a plan to shift the ownership of all but three thousand core or strategic enterprises away from the state through mergers, public sale of shares or transferring control to management or workers. This trend of corporatization, though in many cases involving only partial and not complete privatization, has continued ever since. There have been numerous mergers

between Chinese companies while foreign multinational firms' acquisitions of Chinese SOEs have also shown a significant increase.

As China continues to carry out her privatization and enterprise reform, it is expected that the open-door policy will be continued and there will be an increasing number of state-owned enterprises (SOEs) merging with foreign multinational corporations (MNCs). It is important for both parties, MNCs and SOEs to have an early appreciation of the intentions behind the merger. Only a good match between expectations and capabilities on both sides can produce a good merger agreement and subsequent efficient business operation. After enough case studies using longitudinal approaches are done on SOE-MNC mergers, lessons and recommendations can be drawn and training programs set up for SOE managers of the integration process. Such efforts will benefit MNCs and SOEs alike and will upgrade effectiveness and efficiencies throughout the merged company.

1.4 The Main Research Problem and Research Questions

This research will contribute to the study of post-merger integration (PMI) process in the Chinese pharmaceutical industry in a number of ways. Little is known about why the post-merger integration processes are vulnerable and what the related critical success factors are. This research, therefore, aims to identify the critical issues faced by M&A practitioners in the post-merger integration process involving Chinese companies. It also aims to understand the important strategic management factors that lead to synergy realization and M&A success. It is hoped that this research will give more in-depth and substantive proposition to practitioners in Chinese M&A to achieve successful post-merger integration. Also, it will provide a framework in understanding why certain M&As fail in China and how that can be improved. Due to the sharp increase in M&A deals in China, the study will set a milestone and shed light for future

studies that will benefit academics and practitioners alike.

The main research problem is "What are the critical issues facing practitioners in post-merger integration involving Chinese pharmaceutical companies and what are the strategic management aspects that should be managed properly to ensure merger success and synergy realization?" This leads to the two following specific research questions:

1) What are the specific issues, actions/solutions and outcomes in the post-merger integration of Marketing, Operations, Administration, Finance and R&D functions?

2) What are the strategic management decisions and actions in pre-deal diligence (i.e. evaluation of combination potential and strategic fit), and post-merger integrating process (organizational integration and employee resistance) that can best explain merger success or failure?

These questions will be answered by literature review and by investigating into the cases of Chinese-Chinese and Foreign-Chinese mergers via the following detailed questions:

1. What are the problems of the respective merged organizations?
2. What are the main similarities and differences in the integration strategies and processes followed by Western and Chinese companies in M&As?
3. To what extent are differences in strategies accounted for by national and organizational cultural differences and management style of the acquiring company?
4. To what extent are the problems company-specific, type-specific (Chinese-Chinese or Foreign-Chinese) or industry-wide?
5. What is the degree of embedded, tacit value-creating mechanisms in the target in the integration of complementary resource bundles to secure synergy gains?
6. What is the degree of reliance on human interactions and/or human capabilities for

value creation in the integration of complementary resource bundles to secure synergy gains?

7. What are the measures to overcome these hurdles?
8. What are the outcomes of the initiatives?
9. What are the initiatives that enable the respective companies to realize synergies and merger success?

The objective of this research is to use comparative case studies to analyze strategies for managing the post-merger integration processes in M&As in Chinese pharmaceutical industry. The knowledge derived from the research will add to our understanding of M&A in the following ways:

1. The most significant issues faced by Chinese pharmaceutical companies during post-merger integration;
2. The variations in integration strategies and processes followed by Western and Chinese companies; and,
3. The implication of cultural fit issues and learning perspectives in Chinese M&A.

1.5 Research Design and Methodology

This research adopts a case study approach for properly tracking the Post-Merger Integration (PMI) processes in the merged companies under study. It includes the background, objectives, strategies, implementation, issues/ problems and solutions undertaken besides an evaluation of synergy/ performance attained. Also, the study utilizes semi-structured to unstructured interviews, surveys, and secondary data search to triangulate reliable and convincing findings.

To lay the groundwork, an extensive search is conducted over literature and the Internet of the respective companies for information that comprise the background and

framework of the post merger integration initiatives. Initially, a list of merged companies of medium to large size in the Chinese pharmaceutical industry is chosen from published sources and the Internet. The mergers would be between Chinese and Chinese or Chinese and foreign firms. Contact with potential companies is made through correspondence and their consent to participate in the case study will be obtained. A final list of three to four companies is selected for subsequent in-depth face to face interviews with the respective Chief Executive Officer and possibly his/her functional heads. These interviews aim at reconfirming the findings in the secondary data search and providing new insight in the initiatives. The results derived in different stages are linked, analyzed and compared via triangulation.

For this research, the selection of cases is a critical part. The desirability of limiting comparison to a small number of firms is recognized. Selected case studies cover a small number of firms with a significant market presence in the pharmaceutical industry in China. The firms are medium or large-size firms in the industry that are willing to take part in the research. The real names of the firms are disguised to protect commercial confidentiality. Research involves site visits and interviews in firms. A typical case study includes a review of annual reports, operating and strategic plans, discussion with various levels of managers and factory visits. Interviews are semi-structured and audio tape recorded if permitted by the respondents. An interview protocol has been identified. The fact that such a protocol had been used successfully in a similar field setting eliminates the need for a pilot study. The procedures are to be based on the work of Hsu (2001), Gibbins et al. (1990) and Turner (1981). Whenever possible, the participating firms have the opportunity of eventually commenting on a detailed draft and comments are then used in finalizing the article.

1.6 Scope of Study

This is a study of the post-merger integration (PMI) process in eight recently merged companies in the Chinese pharmaceutical industry. The unit of analysis is the corporate base of the relevant companies and all the field work has been conducted with the senior executives at the corporate headquarters of the companies. Since the study is focused on the PMI process in the Chinese pharmaceutical industry in Beijing and Greater Shanghai region, extra caution must be exercised in applying the findings to other industries or other countries.

1.7 Organization of the Study

This study will explore the issue of post-merger integration in the pharmaceutical industry of China, a transition economy. The research subjects are eight recently merged pharmaceutical companies in Beijing and the Greater Shanghai region in China. Two background cases would be used for comparison purpose: the 1995 cross-border merger between Upjohn of the United States and Pharmacia of Sweden and the merger of Taiwanese subsidiaries between two equally large European pharmaceuticals in the latter half of 1990s. The thesis will be organized in the following manner:

Chapter Two - Literature Review

Chapter Objective - To discuss relevant concepts and theoretical models relating to the thesis topic of post-merger integration in recently merged Chinese pharmaceutical companies and introduce the proposed theoretical framework for the study.

Chapter Topics:

- Define key concepts: mergers and acquisitions (M&As), strategic M&A motives, post-merger integration, enterprise reform and privatization of State-owned enterprises.
- Discuss theoretical models in post-merger integration leading to positive M&A

outcome.

- Introduce the integrative theoretical framework for post-merger integration which takes into consideration the perspectives of context, content and process.

Chapter Three - Research Method

Chapter Objective - To discuss the pros and cons of the research methods selected for this study.

Chapter Topics:

- Discuss why a combination of qualitative and quantitative methods is seen as appropriate for this study.
- Explain why the case study and survey methods are used to study the merged pharmaceutical companies.
- Elaborate on the target selection, data collection and analysis process; discuss the difficulties encountered and how they are resolved.

Chapter Four - Findings and Analysis

Chapter Objective – To provide background information on Chinese pharmaceutical industry with respect to privatization and China's WTO accession and to analyze the post-merger integration process at the merged pharmaceutical companies by applying the integrative theoretical model developed in Chapter Two.

Chapter Topics:

- Discuss China's privatization/enterprise reform and WTO accession in relation to recent wave of mergers and acquisitions.
- Analyze post-merger integration in the merged companies, paying attention to the critical factors of context, content and process.
- Explain the critical success factors of Chinese PMI.
- Compare and contrast the Chinese post-merger integration experience with that of

Upjohn & Pharmacia and the subsidiary merger of two major European pharmaceuticals in Taiwan.

Chapter Five - Conclusions

Chapter Objective: To summarize learning from this study and discuss the merits as well as limitations of the study; suggest ideas for future research.

Chapter Topics:

- Discuss to what extent the research questions raised in Chapter Two have been answered by this study.
- Discuss conclusions about the research problem and implications for theory and practice.
- Consider the limitations of the study
- Suggest directions for future research.

Summary

This Chapter has laid the foundation for the thesis. It began by introducing the research problem and the key concepts of post-merger integration and enterprise reformed related mergers and acquisitions in China. Then the research questions were listed, followed by a brief description of the research methods adopted for the study. After specifying the scope of the research, an outline of the thesis was provided with details of the contents of the remaining four chapters. The next chapter will build a theoretical foundation for the research by reviewing the relevant literature in mergers and acquisitions, post-merger integration and enterprise reform related M&As in China.

Chapter Two – Literature Review

This chapter will review the main theoretical perspectives through which mergers and acquisitions have been studied with an emphasis on the situation in China. The objective is to establish the basis of an integrated framework for studying the post-merger integration process in Chinese pharmaceutical industry. Some of the merged firms involve Chinese enterprises that have been partially privatized recently while others foreign subsidiaries of multi-national companies. The literature review will provide the basis for the analytical model and the research questions.

2.1 Definition of Mergers and Acquisitions

A merger is defined as a combination of two or more organizations through pooling of common stock, cash payment to the company being acquired, or a combination of both (Johnson 1999). According to Johnson (1999), a merger is called an acquisition when one of the firms in the transaction, usually the larger, takes over the other company and consolidates the two organizations into a single entity. The major difference is that in the case of acquisition, the acquirer's name is usually retained and control of the decision-making process rests almost entirely with the acquirer. Frequently, the terms, consolidations and takeovers are used to mean mergers and acquisitions. As both mergers and acquisitions require at least some degree of integration between the firms involved, for the purpose of this study (analysis of integration issues and solutions), these terms are used interchangeably. Table 2.1 below describes the parties involved in an M&A.

Table 2.1 Terminology of M&A Participating Firms

STAGE	BUYER	SELLER
Pre-deal	Bidding Company	Target Company
During deal	Acquiring Company or Acquirer	Acquired Company or Acquiree
Post-deal	Merged or Combined	Company

2.2 Strategic Motives of Mergers and Acquisitions

For more than two decades, Mergers and Acquisitions (M&As) have been the hottest subject in management research in the West. However, it was not until the late 1990s that the trend caught on in China when M&As became more frequent and larger in size. Papadakis (2005, p.236) lists the strategic motives of M&As as "a relative fast and efficient way to expand into new markets, to acquire new competences, to create economies of scale, to globalize, to spread the risk or even to dominate existing markets'. To capture R&D synergies is often the major reason for M&As, especially in pharmaceuticals (Ghauri & Buckley 2003).

Mergers and acquisitions have been studied through different theoretical perspectives. First, the field of strategic management has studied M&A as a method of diversification focusing on the motives (Walter & Barney 1990) and performance of the various types of combinations (Seth 1990). Second, research in economics has emphasized such factors as economies of scale and market power as motives for M&A, and has examined performance with mostly accounting-based measures (Ravenscraft & Scherer 1987). Third, finance researchers have studied M&A performance using stock-market-based measures (Jarrell et al. 1988; Walker 2000). The motives of M&A are summarized on Table. 2.2 below:

Table 2.2 Studies on Motives of M&As

A. STRATEGIC MOTIVES	**EXAMPLES OF M & A STUDIES**
1. New markets	Papadakis (2005); Walter & Barney (1990); Ravenscraft & Scherer (1987); Jarrell et al. (1988); Walker (2000); Harrison, et al. (2001)
2. New competences	Teece, Pisano, & Shuen (1997); Hitt, Harrison, & Ireland (2001); Mahajan, Rao, & Srivastava (1994); Brigham, Gapenski, & Ehrhardt (1999)
3. Economies of scale	Weston et al. (2001); Williamson (1975); Ramaswamy (1997); Brigham, Gapenski, & Ehrhardt (1999)
4. Internationalization	Weston et al. (2001); Clemente & Greenspan (1998)
5. Risk Diversification	Williamson (1975); Clemente & Greenspan (1998); Walter & Barney (1990)
6. Domination of existing markets	Williamson (1975); Trautwein (1990); Mahajan, Rao, & Srivastava (1994); Brigham, Gapenski, & Ehrhardt (1999)
B. FINANCIAL & ECONOMIC MOTIVES	Borghese & Borgese (2002); Pablo, Sitkin, & Jemison (1996); Brouthers Van Hastenburg, & Van Den Ven (1998); Gaughan (1991); Evans & Bishop (2001); McKinsey & Company, Inc., Copeland, Koller, & Murrin (2000); Brigham, Gapenski, & Ehrhardt (1999); Ravenscraft & Scherer (1987); Jarrell et al. (1988)
C. HUBRIS HYPOTHESIS	Gaughan (1991); Roll (1986)
D. IMPROVED MANGEMENT	Gaughan (1991); Brigham, Gapenski, & Ehrhardt (1999)

There are two theoretical traditions in explaining the basis for competitive advantage. One is the classic industrial economics based theory represented by the Five-Force model developed by Porter (1980) focusing on the characteristics of the industry that a

firm competes. The other tradition centered on the 'resource-based view of the firm' (Teece et al. 1997; Barney 2001) and is an inside-looking approach which links firm resources with sustained competitive advantages. Theories from both traditions can be used in understanding M&A strategies for a company in a particular industry. For example, research has confirmed that resource complementarity creates the potential for greater synergy from acquisitions and alliances, leading to higher long-term firm performance as an end result (Harrison, Hitt, Hoskisson, & Ireland, 2001). The synergy realized by integrating complementary resources provides an opportunity for the firm to create sustainable competitive advantages. The complementary resources also present opportunities for enhanced learning as well as the development of new capabilities.

Since China's open door policy and economic reform process started over a quarter of a century ago, many domestic and international companies in China have been very successful by keeping their sustainable competitive advantage all the time. The secret of these sustainable successful companies is their great organizational learning capabilities in the ever-changing business environment of China (Chen 2005). Chen (2005) establishes an organizational learning system based in both Western and Chinese management thoughts. The nine interrelated organizational learning sub-systems that comprise the model include "discovering", "innovating", "selecting", "executing", "transferring", "reflecting", "acquiring knowledge from environment", "Contributing knowledge to environment", and "building organizational memory" ones. The evidences in some famous Chinese traditional cultural classics (including *Great Learning, Doctrine of the Mean, The Analects of Confucius, Book of Change, Tao-Te-Ching, The Art of War*, and *Chuan-Xi-Lu*) are shown to support the rationale of the model. Lee (2005) also suggests that in the Chinese business environment, the values of traditional Chinese philosophy are often shared by the senior leaders of the company.

2.3 Post Merger/ Acquisition Integration

2.3.1 Mergers and Acquisitions as Organizational Change

'Mergers and acquisitions constitute a specifically important area of organizational change', notes Vaara (2002). There is an increasing academic interest in these important phenomena. Focus has been specifically on the post-merger organizational integration processes seen as crucial in terms of understanding the organizational outcomes of mergers and acquisitions (Sirower 1998; Vaara 2002).

In the last two decades, organizational research has focused on the post-merger integration process (Haspeslagh & Jemison 1991), highlighting both culture clash (Buono & Bowditch, 1989), and conflict resolution (Mirvis 1985). For example, Haspeslagh & Jemison (1991) discuss how 'determinism, value destruction and leadership vacuum are fundamental impediments to integration'. A central theme has been that management should identify synergistic opportunities (Larsson 1990), create value (Haspeslagh & Jemison 1991), transfer capabilities (Laamanen 1997) or enhance learning (Leroy & Ramanantsoa 1997) during the integration process. Weber (1996) advises management of acquiring firms to study cultural fit factors during pre-merger search process and post-merger integration process. Moreover, Weber, Shenkar, & Raveh (1996) assess the relative role of national and corporate cultural fit in predicting effective integration between merger partners.

On the other hand, human resource management (HRM) literature has emphasized organizational responses to M&As such as employee psychological issues (Astrachan 1990; Schweiger & DeNisi 1991; Cartwright & Cooper 1993), the importance of effective communication, and, how M&As affect careers (Schweiger & Walsh 1990). A general theme has been that human resource related problems have caused difficulties and even failures in organizational integration.

Researchers also analyze the post-merger organizational change processes from a cultural perspective. Many studies suggest that cultural differences in organizational beliefs and values are major causes of organizational problems (Buono et al. 1985; Datta 1991; Chatterjee, Lubatkin, Schweiger & Weber 1992; Weber & Schweiger 1992; Cartwright & Cooper 1993; Vaara 2000). In international (cross-border) M&As, drawing on Hofstede's (2005) national culture literature, researchers have conducted studies on PMI process involving national culture differences (Calorie et al. 1994; Olie 1994; Very et al. 1997; Gertsen et al. 1998; Morosini et al. 1998). Some researchers have also emphasized the acculturation process (Elsass & Veiga 1994; Gertsen et al. 1998; Nahavandi & Malekzadeh 1988; Larsson & Lubatkin 2001). It is generally accepted that from a cultural perspective, organizational integration processes are especially long-term and burdensome.

From the 'managerialist' perspective, post-merger integration processes have been studied as management-led integration projects employing approaches that parallel the different kinds of mergers and acquisitions (Vaara 2002). In his study, Vaara (2002) argues that the dominance of this managerialist perspective has led to non-recognition of other possible perspectives as well as the ambiguity inherent in these complex social processes. Aiming to offer a discursive construction of post-merger organizational integration and using narrative analysis, Vaara then reports four different types of discourse ('rationalistic', 'cultural', 'role-bound' and 'individualistic') and discursive strategies that the narrators (key actors) employ in their accounts of post-merger organizational change. Vaara (2002, pp. 240-241) concludes that the discursive framework is shown to *"Enable 'specific' strategies and moves for (re)framing the success/failure, justification of one's own actions, and (re)construction of responsibility when dealing with socio-psychological pressures associated with success/failure. These*

findings imply that researchers should take the discursive elements that both constrain our descriptions and explanations seriously and provide opportunities for more or less intentional (re)interpretations of post-merger integration or other organizational change process. This is a methodological challenge for (re)constructing historical narratives of organizational change processes, but it is also a broader epistemological issue when considering the role of success stories in the business literature". Thus, it is important to note that Vaara's analysis suggests that success stories are likely to lead to overly optimistic, and failure narratives to overly pessimistic views on the management's ability to control these change processes. Researchers should be critical in their interpretation of respondents' accounts or recollections of their M&A experience.

In an extensive examination of the integration process of M&A, Ashkenas, Demonaco, & Francis (1998) illustrate innovative practices by GE in its effort to manage integration successfully. Drawing on their experience working with GE capital Services to develop the model, the authors offer four lessons from the company's successful run. Lesson One: Integrating earlier is better. Lesson Two: Integration management is a full-time distinct business function. The role of integration manager is crucial. Lesson Three: Decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career-affecting aspects of the integration should be made, announced, and implemented as soon as possible. Lesson Four: A successful integration melds not only the various technical aspects of the business but also the different cultures. The best way to do so is to assign short-term projects to yield quick results that could not have been achieved before. The authors contend that these guidelines can make the integration process more transparent and predictable for those involved. In sum, this paper provides a theoretical framework for instituting an integration process for successful acquisition implementation. In this research study, top executives of the

Chinese pharmaceutical firms will be asked if such a model is in place or has ever been contemplated for use in their institutions.

Tetenbaum (1999) describes key practices to improve the integration of companies undertaking mergers: (1) Select the best people for the integration team and a top performer as the team's leader; (2) Assign them to the organization's efforts on a full-time basis; (3) Provide any and all resources needed to accomplish complete and appropriate culture integration; (4) Keep everyone's focus on managing people's performance to minimize post-merger 'drift'; and (5) Maximize attention and efforts toward achieving strategic goals. It is argued that unless organizations recognize the importance of the human component, its acquisitions will be doomed to failure. However, if senior leaders keep these key practices in mind, they stand a good chance of beating the odds in the merger and acquisitions game. Table 2.3 summarizes below reasons that can explain M&A failures:

Table 2.3 Reasons for M&A Failure

FAILURE REASON	EXAMPLES OF RESEARCH STUDIES
Unrealistic Expectations	Brouthers, van Hastenburg, & van den Ven (1998); Henderson (1989)
Poor Planning	Pablo, Sitkin, & Jemison (1996); Henderson (1989)
Talent Loss Problems	Bryson (2003); Marks & Cutcliffe (1988); Burns (1989); Buono & Bowditch (1989)
Poor Communication	Burns & Rosen (1997); Risberg (1997); Schweiger & DeNisi (1991); Papadakis (2005)
Cultural Clashes	Buono & Bowditch (1989); Larsson & Lubatkin (2001); Kerr (1995); Chatterjee, Lubatkin, Schweiger, & Weber (1992); Cartwright & Cooper (1995); Griffith (2000); Henderson (1989); Nahavandi & Malekzadeh (1988); Schein (1992)
Employee Resistance	Appelbaum, et al. (2000a); Larsson & Finkelstein

	(1999); Haspeslagh & Jemison (1991); Buono & Bowditch (1989); Clarke, Ellett, Bateman, & Rugutt (1996); Judson (1991)
Integration Difficulties	Schuler & Jackson (2001); Lubatkin, Calori, Very, & Veiga (1998); Datta (1991); Burns (1989); Haspeslagh & Jemison (1991); Olie (1990); Tetenbaum (1999); Vaara (2002); Viscio, Harbison, Asin, & Vitaro (1999); Belcher & Nail (2000); Lajoux (1997); Henderson (1989)

2.3.2 Organizational Change: Content, Context, and Process

The theoretical and empirical organizational change literature deal respectively with content issues, contextual issues, process issues and criterion issues which are common to all change efforts (Armenakis & Bedeian 1999). In the review of research literature, Armenakis and Bedeian (1999) discussed (a) ***content issues*** which largely focus on the substance of changes; (b) ***contextual issues*** which concentrate on forces or conditions existing in the organization's external and internal environments; (c) ***process issues*** which address actions taken during the implementation of an intended change, and (d) ***criterion issues*** which deal with outcomes. There are research studies that deal with monitoring affective and behavioral reactions (as outcomes) to change. For our study, the outcome measures will be value creation, task integration and human (staff) integration (Birkinshaw, Bresman, & Haxanson 2000).

As reviewed by Armenakis and Bedeian (1999), research dealing with ***content*** issues generally focuses on the substance of organizational changes that include revisions in strategic orientations, organization structures, and performance-incentive systems. Re-engineering, restructuring, corporate culture change, new technology and TQM (Total Quality Management) are among the most common types of change. These changes will subsequently redefine an organization's overall character, mission, direction, and its long-term relationship to its environment (Burke-Litwin 1992; Burke

1994; Vollman 1996; Armenakis & Bedeian 1999, Beer & Nohria 2000). Beer and Nohria (2000) categorize two dimensions of change, economic driven transformations and changes to support organizational capabilities. Changes aimed at creating value focus on structural and system revisions to bring about cost reduction. These transformations involve reorganization, downsizing and lay-off of employees. On the other hand, changes targeted at the development of organizational capabilities focus on culture, behavior and attitudes and entail no job losses. In the case of mergers and acquisitions, usually both types of change will be involved at different stages of integration. Thus, during post-merger integration, ***content*** changes may include functional/ operational integrations, organizational structural changes, reorganization in terms of responsibilities, decision-making and control, changes in management style, staffing adjustment, performance-incentive system adjustment, and changes in functional/ departmental policies and procedures.

Pablo (1994) examined how the task, cultural, and political characteristics of acquisitions influenced decisions about levels of integration. Although task-related characteristics entered most heavily into managers' decision models, cultural and political factors were also important. These results suggest that an understanding of acquisition integration is best achieved by viewing integration content/ level decisions through multiple theoretical lenses. While industry and acquisition experience explain some variation in integration decision policies, other individual or organization-level factors are also at work.

Furthermore, ***contextual*** research studies largely deal with the various responses taken by organizations reacting to environmental changes which include competitive pressures (Meyer, Brooks, & Goes 1990), regulatory shifts (Kelly & Amburgey 1991), and technological advancements (Haveman 1992). The impact of internal/external

factors (e.g. organizational age, size, mission, technology and inertia/momentum) is significant on an organization's responsiveness to environmental (internal/external) changes (Huff, Huff, & Thomas 1992; Gresov, Haveman, & Oliva 1993; Sastry 1997; Fox-Wolfgramm, Boal, & Hunt 1998). Johns (2001) suggest that substantive contextual factors can explain an unsuccessful change initiative independent of the change content. Schneider, Brief, & Guzzo (1996) indicate that organizational culture and climate (e.g. trust in executive management) are deciding factors for sustaining organizational change. Also, good relationship between employees and supervisors can be crucial for employees to support a change initiative (Lee 1997; Edmonson & Woolley 1999).

Capron and Mitchell (1997) have discussed the context, post-acquisition activities and outcomes of cross-border horizontal acquisitions in the telecommunications industry. The acquisition context includes industry characteristics, target characteristics, target strengths and acquisition motives. Post-acquisition activities (or integration content and process) include several dimensions of business restructuring, resource redeployment, and creation of integration mechanisms. Acquisition outcomes then include impact on business capabilities, financial performance and judgment of overall success. For the acquiring company, its pre-merger planning assessment capabilities (Henderson 1989) and past organizational integration experience (Zweig & Perlman 1995) will determine its ability in making a correct M&A decision as well as implementing the post-merger integration effectively for success.

The acquiring firm is most interested in the competitive advantage of a target firm which rests on internal technological, organizational and managerial processes inside the firm and shaped by the firm's asset positions, and the evolution path adopted (Teece, Pisano, & Shuen 1997). In the Chinese pharmaceutical industry, guanxi (Park & Luo 2001) with the government, brand and market share, and drug manufacture licenses are

attractive competitive advantages that motivate acquiring firms for M&A value creation and subsequent integration.

Cording, Christmann, and Bourgeois (2002) argue that the nature and characteristics of certain resources present difficulties in both the target valuation and integration processes. For example, such resource characteristics as essential knowledge embeddedness, tacit value creating routines, and human qualities, present an enigmatic integration process. Organizational knowledge exists in two basic forms, tacit and explicit (Polanyi 1967; Clarke & Rollo 2001). Tacit knowledge is experimental and intuitive, informal and unwritten whereas explicit knowledge is codified. The effective utilization of the hard to capture tacit knowledge embedded in people and company practices is said to be essential for a firm's competitiveness (Frappaolo & Todd 2000). It is now generally accepted that the tacit knowledge base also accounts for the majority of an organization's collective knowledge (Clarke & Rollo 2001). In a merger or acquisition, the acquiring firm seeks to acquire the tacit and collective expertise of the target firm which is not readily available in the market. If the needed expertise were explicit and individually embedded, then it would be much simpler to just motivate the executives of competing firms to join the company instead of going through the trouble of post-merger integration. The target company's characteristics thus include its competitive advantage, tacit, and collective expertise.

Context variables such as differences in industry sector, company size and organizational culture can have a significant impact on post-merger integration. Henderson (1989) suggests when the merging companies operate in different industries or different sectors within an industry, the acquirer usually does not have ample knowledge of the target firm's operating environment, its products and markets. A high degree of post-merger integration will be less achievable besides being more

problematic. Thus, business compatibility between the merging companies will likely be a beneficial factor when it comes to integrating the people and functions after the merger. Further, Larsson and Finkelstein (1999) suggest that combination potential, organization integration, and employee resistance are the key antecedents to M&A success. In contrast to previous studies on acquisition relatedness, they argue that strategic differences between the merging firms can also create opportunities for synergistic complementarities by combining different operations that enhance the competitive position of the resulting entity. In their study, both strategic similarity and complementarity in marketing and production operations have positive and significant associations with synergy realization. Thus, it is their contention that "economies of fitness" arising from complementary operations and not just "economies of sameness" are important components of what brings merger success.

Larsson and Finkelstein (1999) also found that combination potential was higher when the target was larger in relation to the acquiring firm. Without the critical mass, Kusewitt (1985) and Seth (1990) argue that relatively small acquisitions are less likely than the larger M&As to offer the full range of combination potential. Also, Ravenscraft & Scherer (1987) suggest that less managerial attention is paid to smaller M&As to realize the potential synergies. Research has confirmed that organization integration is positively associated with the relative size of target to acquiring firm (Hunt 1990). Bigger acquisitions (with larger target to acquirer relative size) may well offer greater synergy potential that leads to better acquisition performance.

Schein (1992, p.5) suggests that culture helps managers to understand the "hidden and complex aspects of organizational life." Hofstede (2001, p.373) argues that whereas national cultures differ primarily in their values, organizational cultures vary mainly in their practices inclusive of task, structure and control system. Research on the

post-merger integration process has highlighted both culture clash (Buono & Bowditch 1989), and conflict resolution (Mirvis 1985). It has been generally established by researchers that cultural compatibility is critical to merger success especially when the strategy includes integration of activities and management (Chatterjee, Lubatkin, Schweiger & Weber 1992; Kavanagh & Ashkanasy 2004). Through its attenuation of cultural differences which can derail post-merger integration if left unattended, management style similarity may have a great effect on synergy realization (Larsson & Finkelstein 1999). Management's sensitivity to cultural differences can better address and manage the human side of merger for successful outcomes. Cultural compatibility is, therefore, a context variable that should not be ignored.

Last, but not the least, environmental factors such as labor and regulatory laws, corporate and taxation laws, intellectual property rights, etc. will have various degrees of impact on post-merger integration. In the case of China, due to the rapid enactment of laws in response to urgent needs of marketization process, the planned integration content and speed are often subject to modification in order to comply with new legal changes.

On ***process*** research in organizational change, Armenakis and Bedeian (1999) consider two areas of focus: (a) phases for change agents to follow in implementing change, and (b) stages through which change targets (organizational members) progress. These phases and stages are referred to as the change process. Lewin (1947) has provided a foundation for implementing change as a process consisting of three successive phases called freezing, moving, and freezing. The Judson model (1991) is comprised of five phase (a) analyzing and planning the change; (b) communicating the change; (c) gaining acceptance of new behaviors; (d) changing from the status quo to a desired state; and (e) consolidating and institutionalizing the new state. Judson suggests that alternative media,

reward programs, and bargaining and persuasion can be used to overcome resistance to change efforts. Kotter (1995) recommends eight steps in implementing operational changes: (a) establishing a sense of urgency; (b) forming a coalition of supporters; (c) creating a vision; (d) communicating the vision; (e) empowering others to act; (f) Creating short-term wins; (g) consolidating improvements; and (h) institutionalizing the new approaches. Galpin (1996) proposes a nine steps model based on understanding of an organization's culture as reflected in its rules and policies, customs and norms, ceremonies and events, and rewards and recognition. The steps are (a) establishing a need to change; (b) disseminating a vision of a planned change; (c) diagnosing the current situation; (d) generating recommendations; (e) detailing the recommendations; (f) pilot testing the recommendations; (g) preparing for rollout; (h) rolling out the recommendations; and (i) measuring, reinforcing, and refining the change. Also, Armenakis, Harris and Field (1999) propose two models that emphasize readiness for change and using influence strategies to facilitate the adoption and institutionalization of the desired change. Two conclusions can be drawn from the implementation models, that is, (a) the change process takes considerable time and multiple steps, and (b) mistakes in any step can negate prior gains and slow down implementation.

Organizational members' understanding and interpretation of the change process occur in four stages according to Isabella (1990): Anticipation, Confirmation, Culmination, and, Aftermath. Similarly, Jaffe, Scott, and Tobe (1994) advocate a four-stage model: Denial, Resistance, Exploration, and Commitment. It is understandable that during anticipation individuals tend to experience denial and at confirmation, they attempt resistance. During culmination, when frame of reference is amended and comparison of conditions made, exploration (or experimentation/testing) is under way. Finally, aftermath is when organization members decide how much they will commit to a change process. The two studies explain potential reactions to change and provide

practitioners with insights into strategies and tactics for dealing with each stage in a change process.

To manage a merger or acquisition, Marks & Mirvis (2000) have advocated an effective transition structure that lasts from three months to a year. This transition structure comprised of steering committee, task force and change manager is to coordinate and support all the necessary changes during the period. With a *project team* in place, it is hoped that better communications will minimize *employee resistance*, increase speed of change implementation and encourage new organizational learning to make the merger or acquisition a success. Speed of integration which is acting rapidly post-deal has been considered as critical for M&A success (Angwin 2004). Thus, project team effectiveness and degree of employee resistance can serve as indicators of smoothness of the change process.

Research has indicated that participation is a key variable to increase acceptance of change (Kotter 1995; Reichers, Wanous, & Austin 1997; Wanberg and Banas 2000). During the change process, employees expect their opinions being heard and given consideration. Employees' higher commitment and more substantive participation (such as shared decision-making) in the change process ensure successful implementation of changes.

The ***criterion*** or ***outcome*** variables in quite a number of research studies have primarily involved success/failure criteria such as profitability, quality, service, and market share (Armenakis 1999). However, research on receptivity and resistance (Clarke, Ellett, Bateman, & Rugutt 1996) as implementation criteria is useful in assessing the denial and resistance stages in the Jaffe et al. (1994) model. Moreover, research on organizational commitment by Meyer & Allen (1997) offers insights for checking

whether organizational members have reached the Jaffe et al. (1994) 'commitment' stage. Cynicism (Dean, Brandes, & Dharwadkar 1998) and stress (Schabracq & Cooper 1998) and related personal reactions are also relevant criterion variables to be considered in the framework of implementing an organizational change.

For evaluating post-merger integration process and performance for the M&As, Adams, & Neely (2000) propose the 'performance prism' with five interrelated aspects: stakeholder satisfaction, strategies, processes, capabilities, and stakeholder contribution. In the hands of capable managers, it is argued that the performance prism can improve the delivery of desired outcomes and the odds of achieving PMI process by:

- *Making stakeholders the primary focus of measure design from reciprocal perspectives;*
- *Forcing the identification of critical strategic success factors and their associated measures;*
- *Emphasizing the four generic business processes as the fundamental engines of value creation; and,*
- *Focusing on integrating and leveraging the combined organizations' capability components.*
-

Schweiger & DeNisi (1991) used a two group (i.e. experimental and comparison groups) design methodology to investigate the effect of various communication media on the attitudes of employees in two units of an organization that had announced a merger. They found that within the comparison group where there was hardly any communications, uncertainty and stress increased and employee commitment weakened. Realistic communications (practiced in the experimental group), however, helped employees to cope with the merger and the positive effects became more obvious over time. Also employee behavioral reactions to change can be assessed in terms of the texture of work, nature of knowledge, interaction patterns, and mechanisms of coordination (Orlikowski 1996). A meta-analysis by Damanpour (1991) uses six internal contextual variables, five content variables and two process variables to explain an

organizational change which is innovation. The major finding of this analysis is that a successful change effort may depend more on the fit between content, contextual, and process variables than the nature of an intended change. Devos and Buelens (2003) also used these three types of variables to explain openness to organizational change.

As shown above, research in the field of organizational change is robust and the relevant literature may shed light on how post-merger integration can be properly implemented to ensure success. Table 2.4 summarizes below the research studies that discussed the context, content, process, and outcome variables pertaining to post-merger integration (PMI).

Table 2.4 Post-Merger Integration Studies

CONTEXT	
1. Acquiring Company's pre-merger planning and assessment capabilities	Epstein (2004); Henderson (1989); Cartwright & Cooper (1995); Haspeslagh & Jemison (1991); Hickson, Butler, Cray, Mallory, & Wilson (1986); Viscio, Harbison, Asin, & Vitaro (1999); Hitt, Harrison, & Ireland (2001)
2. Acquiring Company's past integration experience	DiGeorgio (2003); Vaara (2002); Zweig, & Perlman (1995); Viscio, Harbison, Asin, & Vitaro (1999); Appelbaum, et al. (2000a); Hitt, Harrison, & Ireland (2001)
3. Acquired Company's Competitive Advantage	Teece, Pisano, & Shuen (1997); Croyle, & Kager (2002)
4. Acquired Company's Tacit Knowledge	Cording, Christmann, & Bourgeois (2002); Clarke & Rollo (2001); Bruton, Oviatt, White (1994); Polanyi (1967)
5. Acquired Company's Group-embedded Knowledge	Ranft, & Lord (2000); Clarke & Rollo, (2001); Spender (1996)
6. Pre-merger Business Compatibility	Henderson (1989); Olie (1994); Mirvis & Marks (1992)

7. Relative Size Similarity	Diven (1984); Kusewitt (1985); Seth (1990); Hunt (1990); Larsson & Finkelstein (1999); Ravenscraft & Scherer (1987)
8. Pre-merger Cultural Difference	Nahavandi & Malekzadeh (1988); Buono & Bowditch (1989); Henderson (1989); Burns (1989); Haspeslagh & Jemison (1991); Schein (1992); Hofstede (2005)
9. Environmental factors	Hitt, Harrison, & Ireland (2001); Mahajan, Rao, & Srivastava (1994); Bower (2001); Marks (1997); Gall (1991)
CONTENT	
1. Functional/Operational Integration	Bower (2001); Aguilera & Dencker (2004)
2. Departmental Organization Structure	Datta (1991)
3. Reorganization in responsibilities, Decision-Making, & Control, etc.	Henderson (1989); Burns (1989)
4. Management Style Change	Datta (1991); Haspeslagh & Jemison (1991); Henderson (1989); Buono & Bowditch (1989); Burns (1989)
5. Staffing adjustment	Datta (1991); Buono & Bowditch (1989)
6. Performance Incentive System Adjustment	Datta (1991); Burns (1989)
7. Policies and Procedures	Marks & Mirvis (2000); Holtzman & Goldstein (1994)
PROCESS	
1. Effective Project Team	Ashkenas & Francis (2000); Marks & Mirvis (2000); Bijlsma-Frankema (2001); Gall (1991)
2. Employee Resistance	Buono & Bowditch (1989); Chatterjee et al. (1992); Datta (1991); Bower (2001)
OUTCOME	
1. Value Creation	Haspeslagh & Jemison (1991); Birkinshaw, Bresman, & Haxanson (2000)
2. Task Integration	Birkinshaw, Bresman, & Haxanson (2000)

3. Human Integration	Appelbaum, Gandell, Yortis, Proper, & Jobin (2000a); Birkinshaw, Bresman, & Haxanson (2000)

2.4 Privatization of State-owned Enterprises and M&As

2.4.1 Privatization Defined

In this study, 'privatization' is taken to mean "the partial or total transfer of an enterprise from public to private ownership," (Bös 1991, p.2). According to Bös (1991), there are four main neo-classical economic justifications for privatization. They include increasing the efficiency of operations, increasing private capital income in the economy, maintaining long-term stability by allowing necessary changes, and positive effects on the government budget. In developed countries like the United Kingdom, France and Japan, partial privatization of firms leading to a mixed private and public ownership has been frequent. In developing countries such as Eastern European nations and China, partial or total sale of state owned enterprises is also common. In China where 'socialism with Chinese characteristics' is being practiced, it is important to note that the term 'corporatization' is used by various levels of governments instead of privatization for political correctness reasons.

2.4.2 Privatization Related Mergers and Acquisitions

Privatization of state-owned enterprises has brought about new types of business entities in China. The following is an account of China's road to market reform summarized from various Chinese media sources such as People's Daily and Xin Hua News. Wu (2000), one of the most respected Chinese economics scholars, has also reviewed 'China's Economic Reform: Past, Present and Future'. Since late 1978, China has adopted a gradualist but progressive approach to her market reform in an attempt to improve economic efficiency. The institutional changes have been allowed to take place in an incremental manner over an extend period of time. Reform of the state-owned

enterprises (SOEs) is deemed to be a very important aspect of the process. The legal and organizational bases of these SOEs have been subject to continual modification in order to improve economic performance. From 1978 to 1986, reform was concentrated on increasing enterprise autonomy, delivering contract profit to the state, and replacing profit delivery by taxes. In essence, the old system of state dominated production was replaced by a system of power sharing between the planning authorities and the state. On the other hand, the tax system was aimed to eliminate bargaining over profit distribution between the firm and the state and hence to increase incentives for profit maximization. While the content of planning underwent a great deal of change, it was still ambiguous in terms of who should take the economic responsibility for the firm because very few incentives were made available to the responsible director. This issue led to the development of the economic-responsibility system.

During 1987-92, reform was focused on the contract responsibility system. The State Council issued a 'Decision on Intensifying the Enterprise Reform and Revitalizing Enterprise' on December 5, 1986. The document brought about (a) leasing for small SOEs, and for some medium-sized SOEs running a loss or earning low profits; and (b) contract-management responsibility in large and medium-sized SOEs. Becoming the mainstream of reform program, the main theme of 'Contract Responsibility System' was that the director of the enterprise was required to take decision making responsibility and the SOE was obliged to guarantee delivery of the profit quota regardless of its performance. This led to more freedom for the SOEs in organizing their operations, more commitment to contract targets, and more incentives to improve performance. Even though the 'contract responsibility system' was generally considered to be a success, the use of three-year contracts did not change the short-term behavior of the enterprises. Rent-seeking behavior of SOE managers was common and retained earnings were used for paying bonuses instead of reinvesting in the business.

Finally, in 1992, reform in SOEs entered a new stage, the shareholding system and an increasing level of corporatization. The long-term aim was for the state to have indirect instead of direct controls over the enterprises with clear separation of management from ownership. The rationale was to allow management greater autonomy and flexibility in decision making. Initially, a state-owned enterprise would need to be converted to a shareholding company with limited liabilities before it could be listed on the two Chinese stock exchanges. The Modern Enterprise System (MES)/ Group Company System (GCS) reform program was piloted in the 1990s. Under the GCS, 56 large and medium-sized SOEs developed parent holding companies and groups of subsidiaries. The GCS was aimed at creating large group companies that could be competitive internationally through reorganization of structure, assets, and resources. On the other hand, the MES was supposed to introduce 'Western' management practices to SOEs that could reduce state interference in company management. These new reform programs were targeted at reducing enterprise costs (work-force downsize and removal of social welfare for workers) so as to improve profitability and global competitiveness. Simultaneously, many Chinese provinces and municipalities started to provide health and unemployment insurance and pensions to the workers.

In 1997, the Chinese Communist Party approved a plan to shift the ownership of all but three thousand core/ strategic enterprises away from the state through mergers, public sale of shares or transferring control to management and workers. This enterprise reform process is still continuing five years into the new millennium. In spite of the fact that corporatization is in every aspect almost identical to privatization, the latter term has never been used by Chinese officials, SOE executives or the media to describe the reform process because of China still professes to Socialist political ideologies. More than a decade after the shareholding/corporatization reform, many partially privatized

SOEs are still state-controlled or subject to government influence with degree of managerial accountability largely in doubt. Also, the economic results of the reforms to date are mixed. Some SOEs are still incurring heavy losses and require government subsidy while state intervention has been drastically reduced and such factor markets as capital, property, labor, and technology firmly are firmly in place.

2.5 Enterprise Reform and M&A in China

The FORTUNE Global Forum is held annually to gather the global business leaders, heads of state, and leading thinkers to focus on the most pressing issues facing world business with an aim to share the strategies and forge the alliances. In May 2005, the ninth FORTUNE Global Forum convenes in Beijing to explore the theme "China and the New Asian Century." The press release of this Forum states: *"As the world's economic center of gravity shifts to Asia, the dynamics of the global economy are changing dramatically. Already a dominant force in trade, China will overtake the US to become the world's largest economy by mid-century—with India not far behind. The focus of the 2005 Forum will be how multinationals can tap into the enormous potential of China and its Asian neighbors and prosper in the decades ahead."*

This describes in essence the important position of China in the new Asian Century of this millennium. Actually, China is more than a single country; it should be considered as a social, political, economic and cultural system of continental proportions. It has 22 provinces, 5 autonomous regions and 4 municipalities directly under the central government besides the special administrative regions of Hong Kong and Macau. In 1978, the Chinese government started to implement her economic reform policy to remedy for the deficiency of the planned/ command economy run as such since 1950. Decentralization of state control commenced with the development of township and village enterprises (TVEs). As part of the reform program, the open-door policy

encouraged foreign investment and promoted foreign trade. As a result of competition introduced into the domestic market, domestic enterprises were forced to become more efficient (Chow 2000). The open-door and economic reform policies seemed to have work miracles for Chinese economy. After two decades, local private enterprises, TVEs, Sino-foreign joint ventures (JV) and wholly-owned foreign enterprises (WOFEs) flourished alongside the state-owned Chinese enterprises (SOEs). Despite initial success of the business enterprises, there still exist barriers to effective managerial practices in China according to Siu and Glover (2001). In order to survive in the long run, it is suggested that Chinese executives need to re-examine their own management and training systems as much as the general corporate culture. The academia has witnessed not only progress but also the pain that has accompanied China's path to a market economy (Yau & Steele 2000). A wide range of business issues presents a glimpse on the complexity of doing business in China today. During almost 30 years of isolation, China had no modern management experience or meaningful legal and regulatory framework to speak of. Thus, China has to make great efforts in order to catch up with the lost years rapidly.

On the May 9, 2005 issue of Newsweek with cover story "China's Century", International Editor Fareed Zakaria writes that China's rise is no longer a prediction, but a fact. It is already the world's fastest-growing large economy (at about 9% annually for the last 25 years!) and the second largest holder of foreign-exchange reserves, mainly in US dollars. China is now "the world's largest producer of coal, steel and cement, the second largest consumer of energy and the third largest importer of oil. China has won the title "the workshop of the world" as it manufactures two thirds of the world's copiers, microwave ovens, DVD player and shoes" (Zakaria 2005).

China's rapid development and growth have benefited the world. Woodall (2004) of the

Economist magazine notes that "it was largely thanks to China's robust growth that the world as a whole escaped recession after America's stock market bubble burst in 2000-02." China's economic reform dated back 27 years to the Third Plenum of the 11th Central Committee of the Communist Party of China held in December, 1978 when Deng Xiaoping urged the party and the regime to focus on development and modernization and let facts and not ideology guide its path. This modernization path has since been exceedingly pragmatic and not at all ideological. Many critics of China's modernization/ economic path have cited inflated accounting numbers, rampant corruption, growing unemployment, huge non-performing loans, and large regional disparities in economic development will cause a big crash (e.g. Chang 2001). Surely, these are problems for the Chinese leadership to pay attention and try to provide solutions. Perhaps, for the time being, it is the sustained high economic growth that maintains the momentum and buys time for the problems to be tackled.

Wadhva (2005) compares the strengths and weaknesses of India and China and notes that 'China's strength in sustained high growth since launching of economic reforms in 1978 leading to significant reduction in poverty levels'. He also attributes China's phenomenal success to the central government's clear vision and pragmatic approach to policy making to achieve regional/ global economic power status, well-developed infrastructure in main business centers and in Special Economic Zones, and pro-business policies and procedures for encouraging Foreign Direct Investment (Dunning 2001; Zhang 2001). Despite these strengths, China is still suffering from some main weaknesses, among which are 'lack of synchronization between economic liberalization and political liberalization (highly centralized political power regime), restrained civil liberties, large number of loss-making State Owned Enterprises (SOEs) and Legal System below international/ western standards (Property Rights and Intellectual Property Rights)' (Wadhva 2005). One can argue that the ever-increasing

degree of economic liberalization will inevitably lead to more political and civil liberties as improvements are already being made in these areas. Also, China has recently enacted laws to enforce property rights and intellectual property rights. In a paper titled "The Beijing Consensus", Ramos (2004, p.61) quotes Singapore's senior Minister Lee Kuan Yew: 'They have been moving towards the free market but with Chinese characteristics. In other words, they cannot abandon the revolution that brought them to power and is their claim to legitimacy. Over the last 26 years, they have been more and more drawn into free market practices. They're comparing free market systems as they operate in Japan, Korea, Hong Kong, Singapore, Europe and the US. They pick up bits and pieces and try to fit them into China's system.' In sum, it is a pragmatic approach that China has taken in converting to a market economy.

In November 2001, China's Global M&A Research Center, an affiliated research body with the Chinese Academy of Social Sciences, was established. So far, four China Mergers and Acquisition Yearbooks (2001-2004) have been published with detailed reports of the M&A deals transacted in various industries during the respective prior years. The emphasis tends to be on the legal proceedings and financing strategies rather than the integration processes. Nevertheless, the yearbooks provide listings of mergers/acquisitions and background information for further research. So far, over one hundred Chinese foreign direct investment (FDI) and M&A books are available in addition to numerous articles published by reputable academic journals inside China. These books and articles should provide sufficient literature for a general understanding of the M&A phenomenon in China.

The best example of enterprise reform success in China is the Haier Group based in Qingdao, Shandong (Wang & Lo 2002). Formerly called Qingdao Refrigerator Company, the firm was more than $10 million in debt in the early 1980s. Today, Haier is

one of the world's top five producers of household appliances, with 30,000 employees and annual sales over $12 billion. Encouraged by the Chinese government, Haier makes a big effort to build a global brand. It first entered developed markets in Germany and the USA under its own brand in 1999. In the following year, it built a $40 million industrial park in South Carolina, USA. Once Haier was pressured by the local government to buy a pharmaceutical company and the venture that resulted was a disaster. Local government has 'offered' other money-losing firms to Haier, but these offers were refused.

2.6 Factors Affecting Mergers and Acquisitions Outcome

Despite the efforts of M&A researchers suggesting prescriptions for success, recent empirical studies show that between 50 and 75% of all M&As fail to achieve their goals (Corhay & Rad 2000; Habeck, Kroger & Tram 1999; PA-Consulting Group 2003; Early 2004). However, Bain & Company M&A team leaders Harding and Rovit (2004) have found that 'while 70% of large deals fail to create meaningful shareholder value, 80% of the Fortune 100 companies have relied on mergers and acquisitions to fuel their growth over the past two decades'. Papadakis (2005, pp. 236) cites such possible reasons as 'unrealistic expectations, poor planning, talent loss or mismanaged, poor communication, cultural clashes, changing external environmental conditions, and integration difficulties, etc.'

Cording, Christmann and Bourgeois (2002) suggest that the resource-based view of the firm can be leveraged to illuminate the nature and characteristics of resources that present difficulties in both the target valuation and integration processes. Specifically they argue that certain qualities of resource bundles are more challenging when valuing target resources and resource combinations as well as presenting ex post uncertainties about acquired resources. Other resource characteristics, such as embeddedness, tacit

value creating routines, and human qualities, present an enigmatic integration process. They conclude that by being consciously aware of these resource characteristics, and the difficulties encountered when valuing and integrating target firms, bidding firms may be better able to preserve and leverage the value creating mechanisms of the acquired firms.

Papadakis's research is one that explores the influence of such factors as "external corporate environment, company characteristics, communication program and the characteristics of the M&A itself" (2005, p. 236). His results indicate that an effective communication program is among the most influential factors in M&A implementation with aspects of the external corporate environment, a formal decision-making process and the "consequentiality of M&A" as other critical ones. This consequentiality is defined as broad direct and indirect consequences of long-term post-merger business changes on all stakeholders (Cartwright & Cooper 1995).

Appelbaum, Gandell, and Shapiro (2000) of Concordia University, Montreal, Canada wrote a two-part paper, "Anatomy of a Merger: Behavior of Organizational Factors and Processes throughout the Pre- During- Post-Stages" with five other professionals from the private and government sectors. The paper is basically a literature review with emphasis on theories and worked examples. The authors examine the multiple organizational factors impacting on a merger as well as those processes being impacted on throughout the merger process.

According to the authors, *Communications* throughout the M&A process plays a crucial role in its eventual success. Providing clear, consistent, factual, sympathetic, and up-to-date information in various ways will increase the coping abilities of employees, which will in turn increase their productivity. This increased productivity will positively

impact on the firm's performance and create sustained competitive advantage by achieving the projected strategic fit and synergies. Corporate *culture*, although extremely resistant to change, can indeed be changed with a proper communication plan in place. Also, any change process is intrinsically difficult to undergo; however, *strategically* increasing the amount and method of information provided can significantly increase the chances of success. Finally, any *change* process, more specifically an M&A, has invariably been very *stressful* for an individual to endure. Research has shown how being more empathic towards the victims in the situation and providing them with all the necessary and valid, objective information can significantly reduce their stress and increase their effectiveness at work. Thus, communication appears to be the key variable to make the pre- during-post-merger process more effective and actually successful.

The authors conclude, therefore, it has become obvious that *managing* a merger assumes significant effort and dedication from top executives and managers. They recommend the seven *strategies* that a manager needs to adopt throughout the entire process. This paper provides an up-to-date, detailed literature review as well as a solid theoretical framework for analyzing the behavior of organizational (inclusive of human resource) factors and processes in mergers and acquisitions. Two other recent papers discussed such other important issues as *trust* and *ethics* related to the socio-cultural integration (Stahl & Sitkin 2002; Wei & Wu 2002).

Very and Schweiger (2001) attempted to identify key problems faced and solutions employed by acquirers during the stages of the acquisition process for domestic and international deals. Using a positivistic- survey methodology and based on in-depth interviews with a small sample of chief executives, the researchers investigate process problems and solutions implemented by acquirers when acquiring at home and abroad.

Interpreting the results from a learning perspective, Very & Schweiger propose that the acquisition process can be understood both as a *target learning process* applied to the focal deal and as a *learning/ experience accumulation process* aimed at improving the acquisition itself. Furthermore, results indicate that both forms of learning are affected by an acquirer's experience in a particular target country.

The authors also note that additional research is needed in at least two directions. First, investigations should analyze how external and internal resources are used; how coordination, cooperation and continuity are ensured inside the acquisition team and linked to focal acquisition performance. Second, research should aim at explaining how experience (Haleblian & Finkelstein 1999) from a deal is appropriately accumulated, utilized and subsequently institutionalized. The use of a *learning perspective* could help acquiring top managers to effectively design their acquisition team and define its role in this *double-level learning* process.

2.7 Developing a Mergers/ Acquisitions Integrative Framework

Most M&A researchers are experts in their own fields and thus they tend to focus on selected areas of interest and take only partial views at the phenomenon. However, there are few exceptions such as Kusewitt (1985), Hunt (1990), Larsson and Finkelstein, (1999), and Papadakis (2005) who pay attention to broader domains and use an integrative framework. Moreover, historically, acquisition scholars and practitioners have adopted a choice perspective that portrays the corporate executive analyzing acquisition opportunities as a rational decision maker. Jemison & Sitkin (1986) suggest that the choice perspective be supplemented with a process perspective that recognizes the acquisition process itself as a potentially important determinant of activities and outcomes.

Taking a broad process perspective, it was Larsson & Finkelstein (1999) who reason that it is possible to integrate the issues into a comprehensive model that views M&A performance (conceptualized as synergy realization) as a function of combination potential, organizational integration and employee resistance. Their piece of research that synthesizes several theoretical perspectives into an integrative model with clear management relevance has become a defining paper in M&A research.

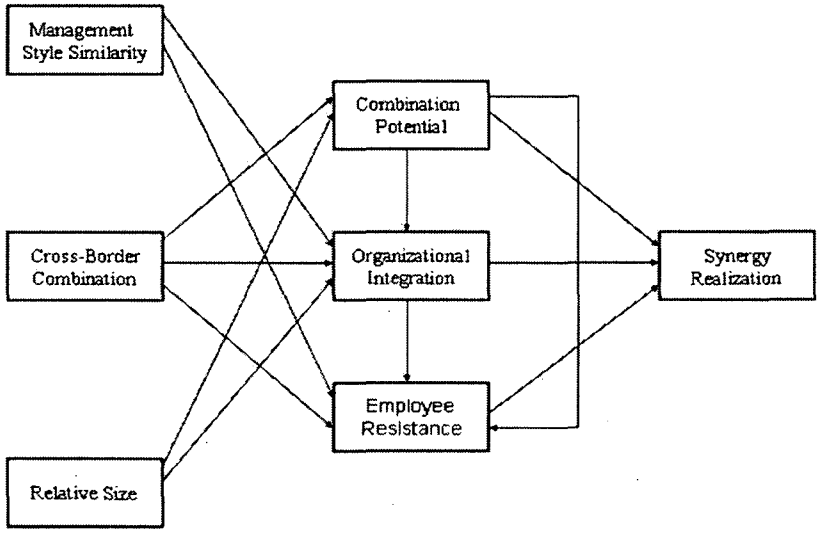


Fig. 2.1 Larsson & Finkelstein's Integrative M&A Framework

The combination potential of M&As is usually conceptualized in terms of their degree of relatedness (Datta et al. 1992). However, such synergistic complementarities as different products, market access or know-how that fit with and enhance one another have been found to be key success factors in qualitative studies of M&As (Hitt et al. 1993). Larsson & Finkelstein conceptualize the combination potential of both the strategic similarity and the strategic complementarities of operations (marketing and operations) of the joining firms.

Organization and HRM researchers have pointed out that strategic combination potentials are not automatically realized, and that the extent of synergy realization depends on how the new organization is managed after the M&A deal is closed (Schweiger & Walsh 1990; Datta et al. 1992). Evidence suggests that considerable interaction and coordination are necessary to exploit the strategic interdependencies that may be present between the two combining firms (Haspeslagh & Jemison 1991). Larsson & Finkelstein then conceptually divide organizational integration into (1) the degree of interaction between the joining firms through, for instance, restructuring, and material flows and (2) the extent of coordinative effort to improve the quality of that interaction through special integrators, transition teams, preplanning, and so forth.

Much of the extensive HRM literature on M&A pertains to individual and collective employee reactions (Schweiger & Walsh 1990). Employee reactions at the target firms are found to be negative because of the "merger syndrome" (Marks & Mirvis 1993; 2001), destroyed career plans (Schweiger & Walsh 1990) and culture clashes (Chatterjee et al. 1992). Larsson & Finkelstein then argue that employee resistance, defined as the individual and collective opposition of employees (both actively and passively) to the combination and subsequent integration of the joining firms, is associated negatively with M&A performance.

Management style similarity, defined by Larsson and Finkelstein (1999) as the degree to which managers in combining organizations emphasize risk-taking, authority, and structure, may affect synergy realization in two different ways. First, when management styles are similar across the organizations, the level of cooperation is often enhanced and the extent of employee resistance to the acquisition may be reduced (Buono & Bowditch 1989). Second, cooperation can increase the likelihood that synergies will be realized because the interaction and coordination necessary for M&A success can

proceed with fewer contentions (Chatterjee et al. 1992).

Synergy realization may be affected by whether the joining firms are located in the same country. A strategic perspective suggests that cross-border mergers may speed new market access and promote globalization synergies (Olie 1990). However, from an organization perspective, cross-border mergers can impede the interaction and coordination needed to realize synergies because of geographic distance as well as legal, financial, and other country differences (Marks & Mirvis 1993). Agami (2001) developed a framework for merger strategy that may minimize failures. The author argues that the CEO of the acquiring company must have a vision for the future of the company after acquisition. A plan for integration of the operation of the acquiring and acquired companies should be developed in detail. Also, a projection of the synergies that will be generated from the integration should then be made. These synergies should be related to the premium and price to determine if the deal is justifiable. Finally the CEO has to develop a strategy of how he or she is going to sell the merger to constituents (stockholders, customers, employees, government, and the financial press) and prove the value of the proposed merger. In Agami's study of a German multinational company merging with a US firm, the two companies developed a thorough plan of integration, a conservative projection of synergies, and were able to prove to their constituents the value of the merger. The performance subsequent to the merger exceeded expectations.

Lastly, from a HRM perspective, cross-cultural differences at the societal level can exacerbate culture clashes that promote employee resistance (Calori et al. 1994). Cartwright & Cooper (1996) outlined a method of assessing the cultural compatibility of prospective merger or acquisition "marriage" partners. They found that M&A practitioners tend to focus on the fit between strategic and financial goals and are

largely unaware of the likely organizational impact of their selection. As a result, at the organizational level, the "collision" of two cultures leads to ambiguity and fragmentation. At the individual level, the employees may experience conflict and stress, and feel they no longer fit in. Performance quality suffers at both levels. Thus, the success of the merger or acquisition can be affected by cultural differences at the merging companies. O'Keefe & O'Keefe (1997) suggest that the Confucian principle of seeking compromise rather then conflict may help Chinese and Western companies to find a middle ground which will help them work more effectively together in their joint business ventures. Understanding Chinese culture will certainly help foreign firms succeed in merging or acquiring Chinese companies.

The relative size of a target firm to a bidder may be an important variable in explaining synergy realization for two reasons. First, when the bidder firm is much larger than the target, the combination potential will necessarily be limited by size constraints (Seth 1990). Second, smaller M&As may not receive sufficient managerial attention to turn potential synergies into realized ones (Ravenscraft & Scherer 1987).

In Taiwan, Hsu (2001) has proposed a Strategic Post-Merger Integration Model based on his case study research on five IT corporate M&As. In his study, the unit of analysis was the value unit or the functional department. A combination of research methods was used: the qualitative case study method and the quantitative statistical method. He argued that the corporate strategic motives directed the departmental integration objectives which would affect the content/ mode of integration. Ultimately, M&A outcome was a result of Post-merger integration subject to the influence of contextual factors and integration objectives.

Hsu's study (2001) found that the scope of integration did not necessarily affect merger

performance. However, a higher degree of staff integration could be achieved if the speed of integration was faster. In mergers aiming at building economies of scale, it was found that large scale integration under project team management would bring better financial outcomes. Also, when a company's knowledge content tends to be tacit and collective (group embedded) an accelerated integration process would produce higher task integration. Fig. 2.2 illustrates Hsu's Strategic Post-Merger Integration model which provides the basis for definitions of the context, content, process and outcome variables used in this study of Chinese M&As in the pharmaceutical industry.

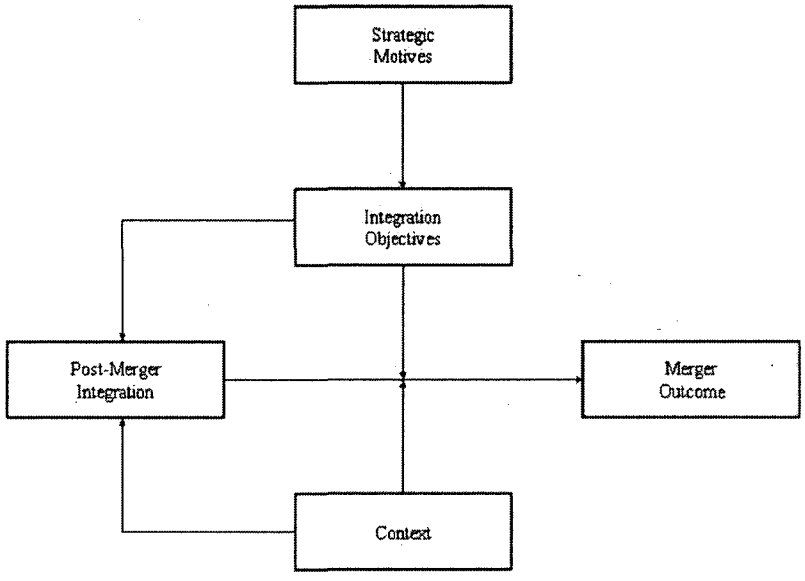


Fig. 2.2 Hsu's Strategic Post-Merger Integration Model

M&As are clearly multifaceted phenomena that are poorly understood through incomplete and partial application of theories from separate fields. A mergers/ acquisitions integrative framework that consists of objectives, context, content (strategies), process (integration), and outcome (synergies) is needed to analyze the phenomenon of PMI in Chinese pharmaceutical industry.

As objectives for pharmaceutical mergers and acquisitions, firms generally pursue economies of scale and/or scope, new markets across the globalized economy (Craig & Douglas 1996; Cui 1998), new core competencies in R&D, and domination in existing markets. Foreign companies have been setting up joint ventures with local Chinese pharmaceutical firms to exploit the huge market and proficient but cheap labor available for R&D. In 2003, eighteen out of the world's top twenty have established joint ventures for manufacturing in China (China Mergers and Acquisitions Yearbook 2004) whereas smaller foreign firms have used M&As to establish a foothold in the Chinese market. On the other hand, domestic pharmaceutical firms consolidate with the objective of achieving vertical or horizontal integration, and seizing larger market share. As Chinese pharmaceutical firms are relatively small in size, no significant R&D competence in Western medicine is attractive enough for foreigners' acquisition. However, a traditional Chinese medicine company has acquired a Japanese counterpart as a step towards expansion into overseas markets.

Adapting from Larsson and Finklestein's (1999) Integrative Framework on Merger Synergy Realization and Hsu's (2001) Strategic Post-Merger Integration Model (for Taiwan's Information Technology Industry), the conceptual integrative framework of Post-Merger Integration for this study is shown in Fig. 2.3 below:

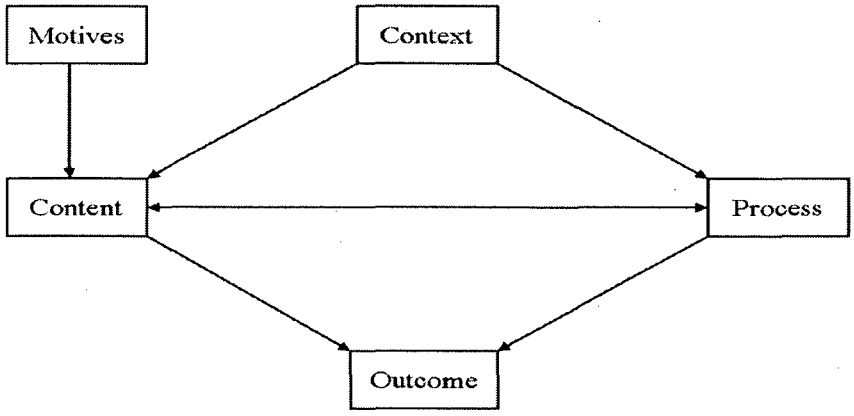


Fig 2.3 Motives, Context, Content, and Process Affecting Post-Merger Integration Outcome

The context, content, process, and outcome variables for this framework have been identified as follows:

The nine ***context*** variables are:

1. The acquiring company's pre-merger planning and assessment capabilities.

2. The acquiring company's past organizational integration (mergers and acquisitions, joint ventures, layoffs, restructuring, reorganization, etc.) experience.

3. The acquired company's competitive advantage.

4. The degree of the acquired company's stock of expertise that was unwritten or informal.

5. The degree of the acquired company's essential knowledge that was group-embedded.

6. The pre-merger business compatibility of the acquiring and acquired companies.

7. The relative size (i.e. similarity in size) of the acquiring and acquired companies.

8. The pre-merger cultural (national, and/or corporate) difference of the acquiring and acquired companies.

9. The degree of impact of environmental factors (laws, taxation, intellectual property rights, etc) on post merger integration.

The seven ***content*** variables are:

1. The extensiveness of major functional/operational (e.g. customer, brand, manufacturing process, R&D, supplier, finance/accounting, etc.) integrations that were completed.
2. The extensiveness of change in your departmental organization structure.
3. The extensiveness of departmental reorganization in terms of responsibilities, decision-making, and control.
4. The degree of change in management style in your department after the merger.
5. The extensiveness of post-merger staffing adjustment.
6. The extensiveness of performance incentive system adjustment.
7. The extensiveness of change in functional/departmental policies and procedures.

The two ***process*** variables for post-merger integration are:

1. The degree of employee resistance in the post merger integration process.
2. The effectiveness of the project team for post-merger integration if applicable.

Finally, the three ***outcome*** variables are:

1. Outcome of merger in terms of value creation.
2. Outcome of merger in terms of task integration.
3. Outcome of merger in terms of human integration.

Besides a qualitative narrative on all the M&A motives, context, content, process variables, and outcomes for the companies under study, a quantitative analysis of survey data will be used to confirm findings statistically. All these will be used in answering the two main research questions:

1. What are the specific issues, actions/solutions and outcomes in the post-merger integration of Marketing, Operations, Administration, Finance and R&D functions?

2. What are the strategic management decisions and actions in pre-deal diligence (i.e. evaluation of combination potential and strategic fit), and post-merger integrating process (organizational integration and employee resistance) that can best explain merger success or failure?

2.8 Summary

In this chapter, the objective is to build a theoretical framework for the empirical case studies conducted in this research following a review of the literature on mergers and acquisitions, post-merger integration, and organizational change as well as China's transition economy and SOE reform. In addition, the effect of privatization of state-owned enterprises on Chinese pharmaceutical industry has been presented. Emerging from the literature review, it was Larsson & Finkelstein's Integrative M&A Framework and Armenakis & Bedeian's (Context, Content, Process, and Criterion) Organizational Change Research Model that best illuminated this study. In the next chapter, the research methodology and the research process will be discussed.

Chapter Three – Research Design and Methodology

In the previous chapter, the theoretical grounding of the concepts of post-merger integration and SOE privatization was discussed. This chapter will deal with the issue of research methodology. It will first introduce the research method and discuss its advantages and disadvantages for the purpose of this study. Afterwards, the data collection procedures, the administration of interviews, and the analysis process will be detailed. The chapter will also include a discussion of the ethical issues involved in the course of research.

3.1 Research Design

3.1.1 Ontological and Epistemological Assumptions

In this section, the broad paradigm taken in the approach of this study will be explained. The paradigm which was based the ontological and epistemological assumptions, determined the methodology adopted for this study, which in turn, influenced how data was collected, analyzed and presented. In essence, the foundation of this research rests on the ontological assumptions concerning the very essence of the phenomena (what there is to know about) under investigation and the epistemological assumptions regarding the grounds of knowledge (ways of knowing and learning about the topic).

Within social research (which includes business research), Ritchie and Lewis (2003, P.11) state that key ontological questions concern: "whether or not social reality exists independently of human conceptions and interpretations; whether there is a common, shared, social reality or just multiple context-specific realities; and whether or not social behavior is governed by 'laws' that can be seen as immutable or generalizable." In broad terms, there are two distinct positions, namely realism (with materialism as its variant) and idealism (with relativism as a variant). ***Realism*** claims that an external

reality exists independent of people's beliefs or understanding and there is a clear distinction between beliefs about the world and the way the world is. ***Idealism***, on the other hand, asserts that no external reality exists independent of people's beliefs and understanding and reality is knowable through the human mind and socially constructed meanings.

These two positions have been debated and modified continually so that their variants arrive at less extreme grounds. For example, Bhasker (1978) argues for '***critical realism***' and Hammersley (1992) for '***subtle realism***' in which social phenomena (realities) are believed to exist independently of people's beliefs or understanding but are only accessible through people's representations (human mind and socially constructed meanings). For this study, subtle realism was adhered to most closely as the ontological position. That is, we accept the social world (reality) does exist independently of individual subjective understanding, but that it is only accessible via the respondent's interpretations (which may then be further interpreted by the researcher). The respondents' own interpretations of the relevant research issues from their different vantage grounds will yield different types of understanding. These diverse perspectives should not compromise an external reality which can be 'captured'; they can help depict a fuller picture of the nature of that diverse and multifaceted reality.

Epistemology is concerned with the nature and grounds of knowledge especially with reference to its limits and validity. It focuses on how we can know about reality and the basis of our knowledge. Three main issues are debated in social research according to Ritchie and Lewis (2003, P.23): the relationship between the researcher and the researched; theories about 'truth'; and the way in which knowledge is acquired. The main epistemological stances are ***positivism*** and ***interpretivism***.

Positivism holds that the world is independent of and unaffected by the researcher and facts and values are distinct. It also holds methods of natural sciences are appropriate for social enquiry because human behavior is governed by law-like regularities; and that it is possible to conduct independent, objective and 'value free' social research. *Interpretivism*, the opposing view, holds that the researcher and the social world impact each other and facts and values are not distinct and research findings inevitably influenced by the researcher's perspectives and values. It therefore claims that natural science methods are not appropriate for social research because the social world is not governed by law-like regularities. Instead, a social researcher can explore and understand the social world through the participants' and their own perspectives. Thus, while it is impossible to conduct objective, value free research, the researcher can declare fully the underlying assumptions.

Qualitative research is largely associated with ***interpretivism***. "The gendered, multi-culturally situated researcher approaches the world with a set of ideas, a framework (theory, ontology) that specifies a set of questions (epistemology) that he or she then examines in specific ways (methodology, analysis)" (Denzin & Lincoln 2003, p. 30). Within interpretivism, the constructivist paradigm "assumes a relativist ontology (there are multiple realities), a subjectivist epistemology (knower and respondent co-create understandings), and a naturalistic (in the natural world) set of methodological procedures. The usual positivist criteria of internal and external validities, reliability, and objectivity can be substituted by such other terms as *trustworthiness, credibility, transferability, dependability, and confirmability*" (Denzin & Lincoln 2003, p. 35; U.S. General Accounting Office 1990). These authors argue that because qualitative inquiry is subjective, interpretive, and time and context bound, "truth" is relative and "facts" depend upon individual perceptions. Lincoln and Guba (1985) recommended the substitution for reliability and validity with *trustworthiness* which is credibility of the

inquiry and *applicability*, transferability of the results and *consistency*, dependability of the results.

However, Morse and Richards (2002, p. 168) still regard it as essential that determining reliability and validity remains the qualitative researcher's goal. They offer the following ways to ensure a qualitative research is solid: (1) Asking the right questions and be receptive to revisiting and modifying them as necessary; (2) Ensuring the appropriate research design to answer the questions; (3) Making trustworthy data and be reflexive to problems that occurred; (4) Building solid theory and verifying relationships in the data; and (5) Verification via triangulating with subsequent research and reaffirming through implementation (Morse and Richards 2002, pp. 178-179).

Phenomenology offers a descriptive, reflective, interpretive, and engaging mode of inquiry from which to derive the essence of an experience (van Manen 1990). The foundations of phenomenology are laid in the works of philosophers Husserl and Heidegger who described the basic structure of the life world, focusing on the lived experience. Experience is considered to be an individual's perceptions of his or her presence in the world at the moment when things, truths, or values are constituted. People are considered to be tied (embodied) to their worlds and are understandable only in their contexts. Human behavior occurs in the context of relationships to things, people, events, and situations (Morse and Richards 2000). A person's description is a perception, a form of interpretation (van Manen 1990).

The phenomenological paradigm to which interpretivism belongs has strong implications for the relationship between theory and observation in this research. It was not the objective of this study to test the validity of a certain theory by observation. Rather, the study was designed to build on existing knowledge and theories of

post-merger integration through an interpretation of events and actions in real life. In this research, the empirical observation was guided by some basic theories of organizational behavior and cultural change. In essence, the purpose of the study was to contribute to the theoretical construction of post-merger integration (PMI) process by building on and refining the basic ideas of the theoretical background of the research.

In working on a subject such as post-merger integration, the researcher is required to interview the subject, and to use judgment in interpreting the realities through the interaction (Morgan 1986 pp. 630-632). The researcher cannot possibly claim to be a passive observer as he/ she attempts to interpret realities using the frames of reference of the people involved in the phenomena under study. The retold phenomena are realities described from the perspective of the researcher rather than objective truths or realities. However, the researcher has conducted the study understanding human behaviors in their social and material contexts and the meanings people attach to their own experience.

In the latter part of the twentieth century, there was development of 'multi-method, transdisciplinary' research which employs different methods and draws on alternate disciplines, as appropriate to the research questions. Some researchers remarked that philosophical positions have been allowed to undermine pragmatic considerations and a more helpful balance might be struck between philosophy and pragmatism (Bryman 1988; Silverman 1993). This pragmatic stance has led to the acceptance of using different research methods including both qualitative and quantitative techniques by the researcher as appropriate in different research contexts and to address different research questions in a single study. As Newman and Benz (1998 p.12) put it, "the key issue should be improving the quality of research through the integrated way of viewing qualitative and quantitative research methods; both paradigms coexist in the world of

inquiry, and together they form an interactive continuum." Therefore, following this new trend of research design, the present study will attempt to employ both qualitative and quantitative techniques to address the research questions.

3.1.2 Research Methods

Every empirical research is said to have an implicit, if not explicit, research design which is a logical plan that guides the investigator in the process of collecting, analyzing, and interpreting observations (Nachmias & Nachmias 1992, pp.77-78). Or it can be considered as a "blueprint" of research dealing with four problems: the research questions, the relevant data, collection of data, and analysis of results (Philliber, Schwab, & Samsloss 1980).

The main question on research design is the choice between qualitative or quantitative methodology as to which or what combination of the two would best fit the research paradigm and objectives. The choice of paradigm will impact the subsequent research design and methodology. The particular paradigm adopted for the research is partly determined by the nature of the research problem under investigation, and it is also shaped by the underlying ontological assumptions. As suggested by Denzin and Lincoln (2003), a research design describes a set of guidelines that connect theoretical paradigms first to strategies of inquiry and second to methods for collecting empirical material.

It was decided that based on the research topic and paradigmatic considerations stated above, a qualitative methodology utilizing case studies is more suitable for the purpose of this study. On deciding the appropriate methodology for the study, the following factors concerning the phenomenon under study, post-merger integration in Chinese pharmaceutical industry, were taken into consideration:

1. Various levels of Chinese government are still maintaining significant share of ownership: It was not a full privatization. As a result, the typical assumptions about post-privatization and post-merger performance cannot be fully applied to all cases.
2. Role of merged partners is unclear: It is not clear that if the bidder companies have full control over the merged companies after the merger. How would this influence the integration process and subsequent organizational changes?
3. Rapid simultaneous changes are taking place in the pharmaceutical industry: With China's accession to WTO, the industry is under pressure to undergo drastic changes in order to compete in global markets. There is also a deadline for GMP qualification for all pharmaceutical companies to meet, putting tremendous pressure for unprofitable small and medium firms to merge.

Against the background of such extensive changes, it would be possible to observe and describe the post-merger integration process and related organizational changes within the subject companies only in their contextual environments.

Based on the above reasons, it was decided that for the study it would be more advantageous to have a research design that uses a qualitative methodology supplemented by a survey instrument. To conduct a research study on post-merger integration, one needs the ability to access the situations, observe and identify the objects or events and understand their underlying meanings. From this perspective, the reality is better approximated through a qualitative and interpretive method rather than measured quantitatively. A number of studies on post-merger integration have been conducted using qualitative methods such as the case study (see Belcher & Nail 2000). However, it is increasingly more common to combine qualitative and quantitative methods in case studies. Scholz and Tietje (2002, p.13) advocate that "in principle, each

case study should use multiple sources of information; all methods should employ direct and participant observations, structured interviews, surveys, and questionnaires, regardless of case design". Therefore, for this study, a survey instrument designed for gathering quantifiable data is also used. The research, thus, attempts to integrate qualitative and quantitative knowledge generated from the case studies. In the following section, the definition of case study, as well as the reasons for using case study in this research will be explained.

3.2 Main Research Method – Case Study

3.2.1 Definition

Case study has been chosen as the research method in this study. The case study research strategy usually entails the detailed examination of one or a small number of cases, usually through the use of qualitative research techniques (Bryman 1995). As a research strategy, the case study is "used in many situations to contribute to our knowledge of individual, group, organizational, social, political, and related phenomena" (Yin 2003, p. 1). The case study method "allows investigators to retain the holistic and meaningful characteristics of real-life events – such as organizational and managerial processes" (Yin 2003, p. 2). The case study research strategy has a distinct advantage over others when "how" and "why" research questions are being asked about a contemporary set of events, over which the investigator has little or no control (Yin 2003, p. 9).

Beginning with the scope of a case study, Yin defined a case study as "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin 2003, p.13). Yin further stated that "the case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest

than data point, and as one result, relies on multiple sources of evidence, with data needing to converge in a triangulating fashion, and as another result, benefits from the prior development of theoretical propositions to guide data collection and analysis" (Yin 2003, pp. 13-14). Case studies also have a distinctive place in evaluation research and there are five major applications: (1) Explaining the presumed causal links in real-life interventions; (2) Describing an intervention in its real-life context; (3) Illustrating certain topics; (4) Exploring the situations where an intervention has generated no clear outcomes; and (5) a meta-evaluation, that is, a study of an evaluation study (U.S. General Accounting Office 1990; Yin 2003). Applying systematic procedures, the case study is definitely a formal research method that can be used to present individual cases or arrive at broad generalizations based on evidences. It is much more than an attempt to illuminate a decision (Schramm 1971), or to describe such other topics as individuals, organizations, processes, and even events.

Although sometimes the case study approach is taken as synonyms of qualitative research or action research, it is actually a distinct research method different from the two. It can be considered as positioned somewhat between qualitative and action research (Bryman 1995, p. 170). Also, a lot of qualitative research may in fact be described as a form of case study as it takes place in one or a small number of organizations (Bryman 1995, p.30). However, not all cases can be labeled as qualitative studies as they sometimes make substantial use of quantitative research methods (Yin 1993, p.3). While case studies can include and even be limited to quantitative evidence, they can also be based on any mix of quantitative and qualitative evidence (Yin 2003, pp.14-15). In the present study, several qualitative methods were used simultaneously during the data collection phase, the details of which will be discussed in later sections. Also a survey instrument is used to gather certain statistics for quantitative analysis.

Yin suggested five important components of the case study research design: (1) a study's questions; (2) Its propositions, if any; (3) its unit(s) of analysis; (4) the logic of linking the data to the propositions; and (5) the criteria for interpreting the findings (Yin 2003, p.21). First, we note the general research question of this study: "How are the post-merger integration processes being handled in Chinese pharmaceutical M&As and why are they successful or unsuccessful in their respective contexts?" Second, our proposition is that the context in conjunction with communications, leadership, prior experience, and cultural difference variables play vital roles in determining outcomes of post-merger integration. Third, the units of analysis are the eight Chinese pharmaceutical companies that had recently undergone mergers or acquisitions. The current state of the art of the case study research design does not provide detailed guidance on the last two components. Nevertheless, to reduce analytic difficulties, Yin (2003, p. 115) suggested three general analytic strategies based on theoretical propositions, rival explanations, and case descriptions. Once a general strategy is chosen, several specific analytic techniques (such as pattern-making, explanation building, time-series analysis, logic models, and cross-case synthesis) can be effective in promoting high quality in the case studies. When a study involves multiple cases, replication logic should be applied in order to gain external validity. Comparisons to rival propositions and threats to internal validity also should be made within each individual case (Yin 2003, p.139). In doing case studies, the use of theory (the resultant theoretical framework) is also the main vehicle for generalizing the results of the study. The case study tactics for testing internal validity can be pattern-matching, explanation-building, addressing rival-explanations, and use of logic models.

Apparently the main reason for case study chosen as the appropriate method for this research was the nature of the research subject. As Yin has remarked in his book (1993, p.3) case study is the method of choice when the phenomenon under study is not readily

distinguishable from its context. In the study of post-merger integration and organizational change, the interaction between the phenomenon and its contexts is very intimate and complex, and is central to the understanding of the topic. Also, "the more the researcher has intrinsic interest in the case, the more the focus of study will be on the case's uniqueness, particular context, issues, and story" (Stake 2003, p.155). In this case of study, the researcher has personally gone through three significant mergers (cross-border and global) involving multinational companies, therefore, his personal interest in the subject is quite obvious.

3.2.2 Problems of Using Case Study Method

Before analysis of data and presentation of findings, it is crucial for the researcher to recognize the potential limitations and drawbacks of the particular research method (s) used. The most obvious drawback of case study research is the issue of generalization (Bryman 1995, p. 172; Yin 2003, p.10). "How can you generalize from a single case?" is a frequently heard question. The answer given by Yin (2003) is that case studies are generalizable to theoretical propositions and not to populations or universes. In doing a case study, the goal is to expand and generalize theories (analytic generalization) and not to enumerate frequencies (statistical generalization) (Yin 2003, p.10). In other words, the main purpose of doing case studies is in generating new insights that are useful for building theory (Burgelman 1985, p.42). Also, as suggested by Stake (2003), "case studies are of value for refining theory and suggesting complexities for further investigation, as well as helping to establish the limits of generalizability".

Another problem of employing case study method is the presentation of findings out of massive documents. Unlike quantitative research studies which follows a formatted mode of presentation (usually the sequence of hypothesis – testing – analysis of results – conclusion), the case study approach allows researchers much flexibility and

freedom in presenting their findings. As there is no fixed rule, the findings of this study will utilize narratives as well as quotations from participants. By using a narrative structure enriched by observations and quotations from the respondents, it is hoped that the cases will be presented as an easy read with rigorous and interesting details.

Riessman (1993) describes five levels of representation of experience in research processes. Adopting the starting point of phenomenology and the lived world of immediate everyday experience, the world is 'already there' before reflection begins (Riessman 1993, p. 8). The first level, attending to experience then consists of reflecting, remembering, recollecting the features into observation. Next comes the telling, the performance of a personal narrative. The third level, transcribing from spoken language into a written text is an interpretive practice. Like the earlier levels, it is incomplete, partial, and selective. At the fourth level of representation the investigator explicitly analyzes the transcript, edits and reshapes what was told into a hybrid story or meta-story (Behar 1993). Value, politics, and theoretical commitments again influence the outcome. The final level of representation comes when the reader encounters the written report and he or she can interpret the investigator's representation.

The limits of representation as discussed by Said (1979) have bearing for all researchers:

> *The real issue is whether indeed there can be a true representation of anything, as whether any and all representations, because they are representations, are embedded first in the language and then in the culture, institutions, and political ambience of the representor. If the latter alternative is the correct one (as I believe it is), then we must be prepared to accept the fact that a representation is eo ipso implicated, intertwined, embedded, interwoven with a great many other things besides the "truth," which is itself a representation. (pp. 272-273)*

Doing research with first-person accounts of experience, it is important to note that narratives tell not only past actions but how individuals understand those actions, that is, the meaning. However, the meaning is not simply the content (ideational); how something is said (textual) in the context of the shifting roles of speaker and listener (interpersonal) is critical also (Riessman 1993, p.21). Thus, the traditional notions of reliability simply do not apply to narrative studies. Rather, the validation process to claim trustworthiness of interpretation is important. Persuasiveness and coherence are two key features of validation.

3.3 Unit of Analysis and Sources of Data

An important concept in doing case studies is the unit of analysis (Yin 1993, p.10). A clear definition of the unit of analysis is mandatory for limiting the boundary of study and determining data to be collected. In case studies, organizations and departments within an organization can be treated as units of analysis, as can events and activities, places and people. In this study, the eight Chinese pharmaceutical companies are the units of analysis in additional to the study of a background case situated in Taiwan. During the post-merger integration process, the chief executive officers of these companies who undoubtedly act as leaders would be most knowledgeable about the changes taken place and the final results.

Data and materials were collected from various channels and sources. The major method used for data collection was in-depth interviews besides direct observation at field locations and the analysis of documents. Other methods were also applied to supplement the research in order to provide more perspectives on the phenomena being studied (Easterby-Smith et al. 1997). Mixing methods by aggregating their respective strengths can be quite beneficial to a research. It prevents the research from becoming

method-bound as every research method is flawed in one way or another (Abrahamson 1983). Yin described three principles that help deal with the construct validity and reliability of the case study evidence: (1) Use of multiple sources of evidence; (2) A case study database; and (3) Maintain a chain of evidence (Yin 2003, P.97).

In this study, the triangulation method has been used by collecting data and information from varied sources. Besides employees from the companies, materials and information were also acquired from other capacities, including publications, industry researchers and past employees. By cross-referencing data and information across various sources, it is believed that the study has achieved a high degree of objectivity and reliability.

3.4 Data Collection and Analysis

During the research, various sources have been used to collect data for analysis. In this section, the data collection process and analysis of the cases are reviewed.

3.4.1 Selection of Companies

The group of companies analyzed consists of local Chinese corporate mergers (Chinese-Chinese), foreign-Chinese takeovers (Foreign-Chinese), and foreign subsidiary acquisitions (Foreign-Foreign) that have taken place inside Mainland China. During spring and summer of 2004, a series of interviews were conducted with senior executives of the companies located in Taiwan and Mainland China. Details about the interviews will be elaborated in the following sections.

3.4.2 Interviews and Interview Schedules

A very large amount of data for this study came from interviews. There are several types of interviews that a researcher can use: open-ended, structured, semi-structured, and survey style based on questionnaires. In open-ended interviews, the researcher can ask

for both the facts of a phenomenon and the respondents' opinion about events. In some situations, the respondents may offer their insights and these propositions may be used as the basis for further inquiry (Yin 1993, p.84). The use of semi-structured interviews is appropriate when the researcher knows enough about the study topic to frame the needed discussion in advance. Such interviews offer the researcher the organization and comfort of preplanned questions, but also the challenge of presenting them to participants in such a way as to invite detailed, complex answers (Morse and Richards 2002, p.94). As post-merger integration of corporate functions is a very complex matter, open-ended questions will be used to elicit company-specific managerial responses to the issues encountered during the process. An interview protocol has been identified. The fact that such a protocol had been used successfully in a similar field setting eliminated the need for a pilot study. The procedures were based on the work of Gibbins et al. (1990), Hsu (2001), Lo (2001), and Turner (1981).

As the respondents were senior executives knowledgeable of company affairs, open-ended questions encouraged in-depth responses and elaboration of insights into the matter. A survey instrument was also used to gather background information and several statistics of the circumstances surrounding the mergers and post-merger integration process. According to Sekaran (2000), a sample size of 30 to 500 is appropriate in a survey study. With a relatively small number of respondents (only 22 in the study) in this study, some firms are likely to be significantly under or over-represented. Thus, only descriptive statistics and Pearson correlation analysis are to be conducted and the results from the survey will be used only as supporting evidence.

In all the interviews conducted in this research, the semi-structured interview format has been followed. A list of pre-set, open-ended questions was asked in a dialog manner. Despite the interviews progressed according to the pre-set questions, the respondents

were free to elaborate on particular issues as well as their envisioned sequence of importance. The open-ended format was believed to make the respondents feel more relaxed and be more willing to elaborate on what they truly feel and think. Also, a dialog style allows the researcher to probe deeper into certain issues when deemed necessary. Good relationship (guanxi - good connections in Chinese) can be established by a semi-structured interview which enables a more active and genuine exchange of first-hand experience and perspectives.

The interview schedule (protocol/ questions) shown in Appendix II was designed to seek answers to the research questions raised in the previous chapter. They include:

1. What are the specific issues, actions/solutions and outcomes in the post-merger integration of Marketing, Operations, Administration, Finance and R&D functions?

2. What are the strategic management decisions and actions in pre-deal diligence (i.e. evaluation of combination potential and strategic fit), and post-merger integrating process (organizational integration and employee resistance) that can best explain merger success or failure?

Respondents were divided into two groups depending on their positions in the company, namely, chief executives, and, functional department heads. Two different sets of questions were used for interviews to allow for more specific, in-depth questions on the change process experienced by the respondents. The following are sample questions taken from the interview schedules:

In-depth interview questions for Chief Executives of selected merged companies:

1. What were the strategic motives for the merger? Have these motives influenced formulation of integration strategies and subsequent implementation of integration process?

2. Was it decided at the very start of the merger decision-making process what was needed to be integrated or changed in the company? Have you changed your direction since then and why?

3. What has been the main focus of change/integration to-date? What have been the main changes so far?

4. Was the post-merger integration based on detailed strategic analysis or on the experience of prior mergers and acquisitions of the company?

5. Which departments and managers have been given the task of planning for and overseeing the integration process?

6. Has there been any pressure, from outside or within, to push the change manager or project leader to adopt or forego some changes? If so, please elaborate.

7. Are there any changes in organizational structures and roles at the corporate level?

8. Are there any changes in corporate vision, values, and beliefs?

9. Do you think the post merger integration process you have gone through was a valuable target learning process for this particular merger? Also, in your opinion, how valuable is it as a learning and experience accumulation process for future deals?

In-depth interview questions for Functional/ Departmental Heads of selected companies:

1. Since the merger/acquisition, has there been any change in the set-up and functions of your department? If so, please explain.

2. Since the merger/acquisition, what have been the goals or objectives of your department?

3. Have you been given new instructions in managing different functions under your jurisdiction?

4. Do you have new performance targets and measures such as value creation and synergies realized? Did you play a part in determining these targets?

5. Do you think that there is close link between changes taken at your level and upper levels and changes are made in alignment with overall company objectives?

6. What measures have you taken to overcome integration problems/hurdles? What are the outcomes?

7. Do you experience any change in your department post merger, for example, in the power structure, company vision, and in basic values and beliefs?

8. Do you think the company's competitive position in the market has changed as a result of the merger/acquisition? Please explain.

The interview schedule (protocol/ questions) was tested in the very first case study conducted with the General Manager and his direct reports of a pharmaceutical company in Zhejiang. In total seven people participated in this first case study. It was found that respondents became more outspoken towards the end of an interview, thus, the order of the questions was changed. The more sensitive and judgmental type of questions were placed towards the end of the interview. Also, the survey instrument of the interview schedule (10-point Likert scale rating questions) was saved for the end of the interview.

3.4.3 Interviewees

For this research, making contacts with the companies and arranging interviews was a very complicated and challenging process. Usually, Chinese companies were reluctant to grant an interview unless the researcher was referred by respectable acquaintances with whom they had good guanxi. In this case, the researcher who had worked in senior

executive capacities in China was able to obtain help from acquaintances in lining up the first couple of companies for interviews. The "snowballing" technique was then used to gain access to few more companies. The resulting selection or "convenience sample" (Martin 1992, p.23) could turn out to be an optimal solution for the respondent company access problem. A summary of the respondents' profiles is presented in Table 3.1. **The identities of the firms and the officers have been masked** in order to protect confidentiality and anonymity of the participants. With the exception of Ms. Kong and Ms. Li of Company D, all the participants were male executives.

Table 3.1 Summary of Respondents' Profiles

COMPANY	RESPONDENT	POSITION
A	Mr. Au	General Manager
A	Mr. Bao	Parent Company VP
B	Mr. Dong	Board Director
B	Mr. Fan	Senior Manager
C	Mr. Chen	Associate CEO
D	Mr. Jiang	President of Division
D	Mr. Han	Deputy General Manager
D	Ms. Kong	Party Officer
D	Ms. Li	Deputy Director, Admin.
H	Mr. Hart	Expat Country Manager
G	Mr. Gao	Country Manager
M	Mr. Ma	General Manager
N	Mr. Niu	Exec. VP
P	Mr. Pei	General Manager
P	Mr. Liang	Production Manager
P	Ms. Zhang	Finance Manager
P	Mr. Xu	Admin. Manager
P	Mr. Lu	Quality Assurance Mgr.
P	Mr. Jin	Engineering Manager
P	Mr. Wu	Sales/Marketing Mgr.
U	Mr. Su	Country President

Over a period of seven months, besides interviewing senior executives of the pharmaceutical companies, a number of researchers in the Chinese pharmaceutical industry and senior executives in related industries (such as logistics) were also met. They had extensive knowledge of the Chinese pharmaceutical industry as well as the current operating environment in China. Most importantly, they were willing to share their perspectives of the ongoing changes taking place.

The majority of the respondents were interviewed once over a period of two hours. Most of the interviews with the chief executive or the second-in-command were conducted in the headquarters of the respective companies. It is believed that the high hierarchical level of the respondents permitted the broadest perspective possible for the post-merger integration issues and solutions. Cross-checking data collected from interviews with industry researchers and published/ documentary information will ensure accuracy and validity of data useable for analysis purposes.

3.4.4 Documentation

Several types of documentary information were gathered for use in this study. The various documentary sources had their respective strengths and weaknesses. The first type was documents prepared by the companies and were made available to the general public. They included prospectuses, annual reports, and press releases. New issue prospectuses provided ample background information on the companies and future prospects while annual reports furnished information on the company's financial positions and performance projection. This type of material provided up-to-date information despite an obvious drawback of presenting the company's own perspective.

The second type of documents was reports prepared by outside agencies. Chinese pharmaceutical industry research agencies do publish a significant number of studies on

the various aspects and sectors of the industry. These reports prepared by industry experts are specialized in nature and can provide more in-depth look into the companies and the industry. Through good and critical guanxi, in-depth research on company problems and performance was obtained.

The third sources of documents were articles published on newspapers and the mass media inclusive of the internet. In recent years, Chinese journalism has been given much freedom in reporting company news and commenting on the general economy. While announcement of company results and occurrence of extraordinary events are almost always reported, in-depth and unbiased reports on the companies are still rare. Moreover, most companies still try to avoid too much publicity, lest it would invite unwanted attention from the government including the tax authorities.

The last types of documents were books and academic journal articles. There are master's/doctoral theses and journal articles from both Chinese and foreign institutions as well as reports and books on Chinese mergers and acquisitions. However, materials on individual Chinese pharmaceutical companies are usually not in sufficient detail.

Documentary materials turned out to be a valuable source of information on the companies and the pharmaceutical industry. Yin (1993) remarks that these documents can be used to corroborate and augment evidence from interviews. As any kind of documents usually aims at serving a particular purpose, caution is thus to be exercised in using the materials so that no misleading information will enter into analysis.

3.4.5 Direct Observation

Each visit to the companies for interviews served as an opportunity for direct observation and source for additional information on the operating environments. As no

formal protocols were stipulated for direct observation, it was used only as an informal, supplementary source of information. The conditions of the headquarters, offices, buildings and factories provided information on the companies' financial situation as well as corporate culture. While direct observation could increase the researcher's understanding of the companies under study, again, caution must be exercised in interpreting the results to avoid any possible biases.

3.4.6 Data Analysis

The most difficult phase in conducting case studies is probably in analyzing qualitative data and evidence. Unlike statistical analysis, there are no fixed formulas for the researcher to apply. As stated by Yin (1993), much depends on an investigator's own style of rigorous thinking, alongside adequate presentation of evidence and careful consideration of alternative considerations. Also, Yin (1993, pp.103-106) has suggested three general strategies to choose among several techniques and to complete the analytic phase of the research successfully. One approach relies on theoretical propositions, that is, the researcher follows the original propositions as expressed in the list of research questions in conducting the analysis. The second approach is defining and testing rival explanations. This strategy can be related to the first when the original theoretical propositions have included rival hypotheses and it is still relevant when such propositions are absent. The last approach is developing a case description, meaning the researcher will analyze evidence according to certain themes in the absence of theoretical propositions. In this study, the first approach has been adopted such as relying on theoretical propositions to analyze evidence. As discussed earlier, the design of empirical research was based on the comprehensive Post-Merger Integration model developed in Chapter Two, which will also provide the basic structure of the analysis. Ultimately, the analysis of research findings was aimed to provide answers to the research questions and sub-questions listed previously.

The data from the empirical studies were synthesized and then analyzed using the analytic induction method proposed by Glaser and Strauss (1967). Analytic induction is a method of extending or refining theories by constantly comparing them with crucial events or typical cases (Glaser & Strauss 1967). The analytic method is very similar to the pattern-matching technique suggested by Trochim (1989). If the patterns coincide, a case study's internal validity is strengthened. Otherwise, the researcher needs to re-examine the evidence and possibly revise the theoretical framework.

In this study, the pattern of post-merger integration is primarily based on the three stage "context-content-process" theoretical framework developed in the previous chapter. Anecdotal evidence pertaining to respondents' perceptions and experience of post-merger integration would be compared to predictions in the theoretical framework. Where the empirical evidence does not fit with theoretical predictions, it would need to be reviewed for discrepancy between theory and reality.

Also, a correlation analysis on survey data collected was conducted on integration outcomes and integration context, content, and process variables to further triangulate research findings with theoretical propositions. All the variables are measured using a 10-point Likert scale (from low=1 to high=10). The Pearson correlation coefficient will be used to reveal the magnitude and direction of relationships between them. The significance of the Pearson correlation coefficients will be determined at 1% and 5% probability levels. Lastly, documentary materials and secondary data were used to corroborate and augment evidence from the face-to-face interviews.

3.5 Background Study

Since the 1990s, major pharmaceutical M&As have taken place in almost all major

markets outside China. Using the example/background studies of the Pharmacia-Upjohn merger and the subsidiary merger of two European pharmaceuticals in Taiwan, some insights may be gained concerning the possible patterns of the post-merger integration process, as well as the problems and opportunities experienced by the subject companies in China.

Even though pattern matching was employed as a strategy for data analysis, a straight comparison was not possible due to the many differences between a foreign corporation and Chinese companies. Significant differences can be found in political systems, culture, geographical regions, sizes, and mode of corporate governance, etc. However, the incentives for merger such as revitalization of business, and search for financial and operational synergies may be considered as common themes and justification for the pattern-matching process. The aim of this study was to explore whether the pattern of post-merger integration exhibited in the background studies could be found in the Chinese companies. In other words, it was meant to test replication logic across cases. If the patterns found in empirical research matched the background case, then a conclusion could be drawn about the similar conditions and process of post-merger integration experienced by Chinese companies.

Yin's four principles (2003) underlying good social science research have been applied. First, all the evidence has been attended to during the analysis and the case studies have displayed significant evidence. The analytic strategies have included the development of rival hypotheses. Second, the analysis has addressed all major rival interpretations and alternative perspectives. Third, the most significant aspect or issue of the case studies has been addressed. Lastly, the researcher's prior, expert knowledge from first-hand personal experience has been used in the study.

3.6 Limitations and Other Issues

It is necessary to recognize the major shortcomings of using mainly a qualitative research method in this study. Although semi-structured interview was a very versatile tool in gathering empirical data which allowed the researcher access to very valuable insights into the phenomenon under study, there existed certain problems. One problem was simply gaining access to the required personnel in the organizations. The researcher had to rely on social ties such as friends and other connections to make contacts and schedule interviews. It also required good interviewing skills to solicit the respondents' honest views on the integration process after the merger has taken place.

Another problems encountered was in collecting data from the interviewees. The use of a tape recorder was not permitted during interviews due to the interviewees' stern insistence. As a result, the researcher had to rely on transcription of meeting notes within the shortest time frame in order to minimize loss of details. This problem became more serious in the socializing sessions after the interview as no notes could possibly be taken. Quite often at this time, sensitive issues were discussed by the more relaxed informants and interesting insights were gained that enhanced the background understanding of critical issues.

3.7 Summary

It is the objective of this chapter to introduce the research method, the justification for its choice, as well as the potential problems associated with it. The ontological and epistemological assumptions for the study were also discussed. Moreover, efforts were made to explain the methods of data collection and analysis. In the next chapter, an in-depth analysis of the post-merger integration process involving Chinese pharmaceutical companies will be presented.

Materials on the background cases have been mostly gathered from secondary sources, in particular, academic journals, books and case studies that have been published on the topic. There were also two interviews with the former executives from the pre-merged companies. In the following chapter, the post-merger integration process of the background cases will be discussed through the application of the "content-context-process" integrative framework. The similarities and differences in the post-merger integration experience of the background cases will then be contrasted with the Chinese companies.

Chapter Four – Findings and Analysis

4.1 The Pharmaceutical Industry of China

The Chinese pharmaceutical industry has been characterized as large quantities of firms, small scales, decentralized (dispersed), and disorderly channels (Bai 2004). The industry has been operating with low economic efficiency. While the manufacturing companies average a 7% net profit margin, the commercial (distribution, wholesale and retail) companies as a whole are incurring losses. There are no large Chinese pharmaceutical enterprises that can compete internationally. In comparison to developed countries, the Chinese State Drug Administration (SDA) was late to push for Good Manufacturing Practice (GMP) implementation in drug production. It was only in 2001 that the revised Drug Administration Law definitively stated "Drug manufacturers shall conduct production according to the Good Manufacturing Practice for pharmaceutical products formulated by the drug regulatory department under the State Council on the basis of the law. The drug regulatory department shall inspect a drug manufacturer as to its compliance with the GMP requirements and issue a certificate to the manufacturer passing the inspection", (Bai 2004). Implementation of GMP is believed to be a necessary regulatory measure of the drug industry via quality assurance as well as a means to increase consumer drug use safety.

According to Chinese government statistics, by the end of 2003, there were 4,979 pharmaceutical enterprises operating in China among which 433 were crude (raw material) drug manufacturers, 3,960 preparation manufacturers and 586 mixed crude and preparation manufacturers. (One estimate indicated that 98% of western drugs were imitation in China.) In addition, more than 1,500 enterprises (owners of Drug Manufacturing Certificates) were licensed to manufacture Chinese traditional medicine, curatorial oxygen, capsules, and medical equipment. In 2004, more than 2,600

pharmaceutical enterprises have passed the GMP certification. The Chinese SDA thus has succeeded in ensuring all blood products, fluid and powder injections are manufactured according to GMP standards in the country. Moreover, a large proportion of crude (ingredient) drugs and non-axenic preparations have also passed GMP certification. Implementation of GMP is also considered as instrumental in promoting structural adjustment and industry upgrade for the pharmaceutical enterprises. Besides social (drug safety for consumers) and economic (more profitable enterprises) benefits, healthy medical market development and higher reputation of Chinese pharmaceutical industry have been achieved.

The Chinese SDA decreed that all preparation and crude medicine manufacturers had to comply with GMP standard by June 30, 2004. After that, no manufacturers without corresponding GMP certificates would be allowed to produce drugs. The Chinese market system was far from perfect up to the present day and macro-adjustment measures often were not as effective as hoped. As a result of inappropriate allocation of resources, many small and inefficient drug enterprises were built over the years by various levels of local governments. With unclear property rights and other systemic problems, it was very difficult for these SOEs to raise funds to complete GMP required upgrades to their manufacturing facilities. These SOEs that failed to obtain GMP certification would need to be consolidated with other GMP certified companies or closed for good. Hence, there was a wave of mergers and acquisitions prior to the deadline of end of June 2004.

4.1.1 Privatization of State-Owned Enterprises

China is classified as a high 'power distance' country by Hofstede (Hofstede and Bond 1988; Hofstede 2001). The success of enterprises thus depends largely on the quality and commitment of the senior managers. Under planned economy, the low salary

structure, lack of incentives for good performance, and penalties for poor performance did not motivate managers to excel (Mar and Young 2001). The Chinese government carried out privatization/ enterprise reform of SOEs in order to drive for enterprise efficiency and managerial performance. The China Haier Group is often quoted as the best example of success via privatization and merging together several state-owned home appliance companies. In the 1990s, the large enterprise groups were transformed into joint stock companies under the shareholding system.

Historically the Chinese government treated different levels of SOEs very differently. Unlike the large SOEs, small local SOEs and TVEs were not entitled to state subsidies such as cheap credit and low-priced inputs. Similarly, during the marketization process, these local SOEs and TVEs were the first ones to be released from the planned sector to the market (Peng 2001) with equity shares sold to investors and the staff members of the companies (corporatized). The large SOEs were usually corporatized at a slower rate before marketized by public listing at the two Chinese stock markets.

The establishment of joint-stock (JS) firms is a popular approach to the reform of SOEs in China today. However, Li, Lam and Moy (2005) argue that the change of ownership alone seems insufficient to improve the strategy or performance of the former SOEs. They suggest that without accounting data that allow effective monitoring the diversification among the Chinese firms and assessing the consequences of this strategy, those JS firms may simply adopt the strategy of diversification to increase the power of the management. Moreover, diversification also makes it difficult to monitor firm management, which may partially explain the corruptions found among the listed firms today (Li, Lam, and Moy 2005).

As many authors have already pointed out (Boisot and Child 1996), given the

institutional environment in China, networks or connections (i.e. guanxi) are very important to firms, among which, those with the government are the most important. As the goal of economic reform has been to force all firms to compete fairly in the market, these former state firms can expect less support from the government in terms of provision of information and other resources. They are likely to use diversification strategy to build non-government connections and obtain resources from non-government sources.

With China's entry to the World Trade Organization and gradual removal of state protection, diversified firms will have to develop competitiveness in their core business in order to compete with multinational enterprises. In essence, the diversified firms should be more aggressive and more focused on building their competitive advantages after change of ownership.

4.1.2 WTO Accession

Chinese has further opened its market to the outside world after accession to the WTO. Implementing the free trade policy, import duty on chemical product has been drastically reduced. Non-duty barriers such as quotas have been eliminated. Protection from foreign competition has weakened as business laws that governed foreign companies operating in China were revised in 2000 to relax the trade barrier. The Chinese government also committed to granting trading licenses to foreign companies by 2006. Foreign companies can then enter the Chinese market with goods produced overseas leveraging on their scale of economy. Due to foreign competition and downward price pressure, it is perceived that a decrease in returns on investment cannot be avoided.

The major challenges to the pharmaceutical industry after WTO accession have been

identified by the industry's research agencies as:

1. As of January 1, 2003, drug distribution in China gradually opened to foreign wholesalers and retailers with full retail drug business allowed on December 11, 2004. Facing imminent tough competition from foreign drug retail giants, it is expected that five to ten large Chinese drug retail chains (each with 1,000 outlets in the network) will be formed through mergers and acquisitions in the next five years.

2. Instead of using joint ventures as a means of entering the Chinese pharmaceutical market, foreign firms may increasing opt for local M&A targets of significant size and technological know-how. Again, this will bring about keener competition in the Chinese pharmaceutical market.

4.2 Post Merger/Acquisition Integration

4.2.1 Context of Integration

On a worldwide basis, the pharmaceutical industry has undergone massive restructuring since the late 1990s. In 1998, two French pharmaceutical companies Sanofi and Synthelabo merged to form a super group with over $30 billion capital. In 1999, Zeneca (UK) and Astra (Sweden) merged to become the world's third largest pharmaceutical company in terms of sales volume. In the same year, Hurst (Germany) and Rhone-Poulenc built the largest life-science group in Europe. In early 2000, two UK pharmaceutical giants, Glaxo Wellcome and Smithkline Beecham combined to be the largest pharmaceutical group in the world. It stayed that way only for two years till 2002 when Pfizer (USA) paid $54 billion to acquire Pharmacia creating the world's largest pharmaceutical company.

Several reasons accounted for the merger/acquisition trend in the international scene.

1. Extended R&D cycle due to increased time spent in clinical experiment phase

and FDA Report phase while basic research time held steady.

2. Increasing R&D expenses caused by more complex diseases and lower success rate.

3. Faster emergence of competitive products/ Shorter independent sales period for star products.

4. Only 30% of R&D cost for originally-developed medicine on the market can be recuperated.

5. Fierce competition from more and more imitated products.

6. Increased sales and marketing expenses to expedite product launch and shorten time to reach peak ales volume.

Mergers and acquisitions have become an important means for international pharmaceutical companies to control the ever-increasing R&D and Sales expenditures. (Xu 2004)

Within China, the trend of mergers and acquisitions involving publicly-listed pharmaceutical companies has been on the rise since 1997 when only one took place that year. It has increased to 13 in 2002 and 14 for the first half of 2004. The most notable Chinese pharmaceutical M&As are listed below:

1. In August 2002, Huayuan Group controlled 40% of Shanghai Pharmaceutical Group and became the largest pharmaceutical group in China. Huayuan also restructured several other Chinese traditional medicine companies in a few provinces.
2. In the course of few years, Shanghai Fuxing Group has bought equities from 32 Chinese pharmaceutical companies and embarked on a restructuring program.
3. Topsun Technology merged with Qidong Gaitianli and controlled Qianjiang Pharmaceutical in 2003 to become the market leader in OTC (over-the-counter) medicine.

4. In July 2003, Beijing Economic Commission launched the "Merger and Restructuring Program for 100 State-owned Enterprises" among which were nine pharmaceutical companies.
5. In July 2003, Sanjiu Group bought 51% equity of Japanese East-Asia Pharmaceuticals through Bencaofang. This was the first time a Chinese pharmaceutical company merged with a foreign company and entered a foreign market as manufacturer.

Several reasons were given to explain the recent consolidation trend in Chinese pharmaceutical industry:

1. China's accession to WTO forces domestic enterprises to face comprehensive competition from international giants.
2. Foreign-invested companies aim at enlarging their market share.
3. Overall over-capacity forces elimination of inefficient and low quality companies.
4. Separation of drug dispensing from medical treatment changes structure of industry.
5. The State Drug Administration raised industry standards and entry barriers.
6. The State Planning Commission has reduced the prices of medicine several times. The implementation of public bidding system has caused more price competition.

In summary, the Chinese pharmaceutical industry has been in transition since the mid-1990s and continual integration/consolidation is the trend. During the first phase, through corporatization and horizontal M&As, large enterprises were formed to manufacture both Western and Chinese traditional medicine. Also, production capacities and sales capabilities were strengthened during this period 1995-2002. Next came the vertical integration phase when large-scale enterprises merged with upstream and downstream companies and modernized their operations. It is expected that after 2005, the main themes will be globalization and value chain specialization. The large and

efficient Chinese pharmaceutical companies will expand overseas markets and use their core competences to compete as manufacturers and retailers (Xu 2004).

4.2.2 Content and Process of Integration

In this section, two background cases are presented first for comparison purposes before eight post-merger integration cases based on first-hand research are analyzed in detail.

4.2.2.1 Background Case for Comparison: Pharmacia-Upjohn Merger

The merger of equals of American pharmaceutical company, Upjohn with Swedish Pharmacia was completed in November of 1995 (Griffith 2000). Belcher and Nail (2000) clinically examined the merger's integration problems and its turnaround strategies to counteract the problems. The following is an adaptation summarized from the article. Besides regulatory and industry factors serving as motivational forces for international consolidation, firm specific factors also led to the merger of Upjohn and Pharmacia. Upjohn was a target for takeover as its research pipeline was weak and several patents had expired recently while Pharmacia was searching for an American partner offering easy access to the American market. The merger of these firms seemed to be an ideal defensive merger of two relatively minor companies to form the ninth largest pharmaceutical firm in the world at that time. Integration issues such as cultural clashes, which were usually problematic in domestic mergers, were more severe in this international consolidation when the two merging companies are headquartered in different continents with drastically different societal norms and general business practices.

News of the merger was initially welcomed by the capital markets with both companies' shareholders experienced cumulative abnormal returns. As a true international merger of two equals, Pharmacia and Upjohn shareholders received equal ownership of the newly

formed Pharmacia-Upjohn. Board membership was split equally with an agreement that Upjohn Chairman Zabriskie was to become the new CEO and Pharmacia Chairman Ekberg the Non-executive Chairman. This arrangement was seen by most people as Upjohn management having the greater influence in the day-to-day operation of the new corporation. As a compromise, the headquarters of the merged company would be located in London and managers there would direct autonomous operations in Michigan, Stockholm, and Milan. Three months after the merger, the capital markets reacted negatively when synergy-related cost-savings were not materialized and restructuring costs came in a lot higher than anticipated. Failed to gain approval from the combined company's largest shareholder, Volvo, for the merger with Allergan, Pharmacia-Upjohn turned to cost-cutting measures to improve performance. On May 22, 1996, the company announced that it would halt development of approximately 20% of its drugs in the development pipeline and use the savings to explore long-term research collaborations with other firms. In June, 2006, Volvo announced that it would reduce its stake in the company by $2 billion (from 14% to 3%). Due to the sale of the Plasma Division and withdrawal from a strategic alliance with Biopure for the development of a blood substitute, the cumulative restructuring charges approached $800 million - eight times those expected at the time of the merger announcement. With 1996 actual earnings and 1997 projected earnings dropping, CEO Zabriskie announced his resignation on January 19, 1997 and he was replaced by Ekberg on an interim basis. There was a 7% drop in stock price to accompany Zabriskie's departure.

On February 4, 1997, A Wall Street Journal article described many of the cultural clash issues and integration problems experienced by the newly merged firm. General differences in management style were: Americans were hands-on and individuals held accountable whereas Europeans were more hands-off and team-oriented; Americans were more confrontational in decision-making. Examples of cultural differences were:

Europeans smoking in the workplace, serving wine with lunch, and month-long vacation times in the summer. The headquarters compromise created an inefficient bureaucracy and added overhead cost. Incompatible information systems in the three operations centers in U.S.A., Sweden and Italy caused functional and reporting problems. Examples cited were unexpected currency risk exposure and delays in applications of new drugs. In Italy, the lack of accounting rules also made it difficult to obtain accurate financial information. Moreover, the strength and protection of labor unions in Italy severely limited the firm's ability to realize cost savings through layoffs of Italian employees.

Despite Ekberg's efforts in new product launches, cost-cutting, and asset management improvement, profits still declined because of decreased sales and higher marketing and sales expenses. At the end of April, 1997, the cumulative abnormal return for Pharmacia-Upjohn since the merger was -41.1%. On May 10, 1997, Fred Hassan, a 25 year veteran of the pharmaceutical industry was brought in from rival American Home products as an outside CEO to turn around the merged company. During his tenure at American Home Products, Hassan shared responsibility for the integration of the American Cyanamid acquisition. As a newcomer from outside, Hassan had no ties to the former firms, or their management teams. It was his job to address the existing problems, grow company revenue and turn the company into a top-tier international pharmaceutical firm that the merger was supposed to create. First, Hassan disclosed in June that it would form a joint venture with Amersham International to create the world's largest biotechnology supply company. Then in the same month, the company agreed to swap certain drug brands with consumer drug giant Johnson & Johnson. The brand swap gave Pharmacia-Upjohn an exit from their weak presence in pain-medication product market and an immediate foothold in the fast-growing consumer drug segment of pediatric drugs.

Hassan crafted the company's strategic plan based on input from senior management in one-on-one meetings and interaction with employees from on-site visits to company facilities. Key components of the strategic plan included streamlining operations, fully integrating the former Pharmacia and Upjohn units in geographic terms, streamlining management with a heavy mix of outsider managers, and creating a greater marketing and sales concentration in the Unite d States. Hassan managed to convince the board of directors to relocate the company headquarters to New Jersey in the Eastern United States where most of the major pharmaceutical firms were located. The board also agreed that the centers in Stockholm and Milan should be directed by headquarters rather than operate as autonomous units. Hassan then admitted that a strong corporate culture had not been developed because of national culture differences. In the short term, he focused on putting resources behind sales and marketing initiatives to drive sales and earnings growth. On research and development, Hassan ordered up a list of experimental drugs in development. He also cut several projects that did not seem to be clear winners in the marketplace and then set about trying to diversify the company's product line beyond Celebrex.

After the first quarter of 1998, Hassan's strategic initiatives seemed to be working effectively with sales, earnings and stock price continuing to climb. By the year's end, Pharmacia-Upjohn experienced a 1998 CAR of 42.8%, and the post-merger CAR was actually positive at 11.6%. The stock price performance of the company was back to a long-term respectable level; that made the merger appear successful when finally integrated. In an October 1998 Wall Street Journal article, Hassan was featured as the Engineer of the turnaround at Pharmacia-Upjohn.

Hassan identified seven key strategies for the successful turnaround of the company as:

(1) focusing on core pharmaceutical businesses; (2) focusing on key (newer and promising) products and maximizing their full life cycle value; (3) concentrating on high value markets and customers (especially the U.S.); (4)improving drug pipeline quality, flow, and speed to market; (5) developing excellence in core capabilities (retaining the best management possible); (6) building unity and establishing strong results-oriented accountability (preempting cultural clashes); and (7) reducing costs and improving asset utilization. Hassan accomplished these strategic initiatives in 1998 and 1999 by selling non-core businesses, increasing emphasis on the U.S. market, and acquiring a cancer drug manufacturer Sugen to bolster its cancer franchise, etc.

On December 19, 1999, the company announced a $27 billion merger-of-equals with industry peer Monsanto. It showed that Pharmacia-Upjohn had become strong enough to pursue such a merger as a result of a successful turnaround. Based on the European Commission approval, Pharmacia-Upjohn and Monsanto closed the merger on March 31, 2000 and began trading as Pharmacia Corp. on April 3.

In the era of globalization, cross-border mergers are means of achieving economies of scale and scope as well as global reach. The case of Pharmacia-Upjohn merger illustrates such integration issues as cultural clashes can create problems and destroy firm value. However, with effective leadership and sound restructuring strategies, the post-merger integration problems can be resolved and poor operational performance turned around. A clear strategy for integration must consider and address both operating and corporate cultural issues in order to achieve the anticipated synergies spelled out for the deal.

In the case of Pharmacia-Upjohn merger, the compromise in headquarters location, split governance structure, and independent operating centers was caused by the cross-border

nationalism involved. As a result of the merged firm's inability to follow a consistent post-merger integration strategy, overhead costs increased instead of reduced, critical product launches delayed, and the strategic acquisition of Allergan abandoned. American ignorance of European work and leisure habits frustrated the Europeans while Europeans were annoyed by the American top-down management style and personal accountability of results. Poor performance in sales and profits led to resignation of the American CEO, loss of investor and analyst confidence in the company, and significance underperformance in stock price.

With the support of the board of directors and valuable employee input, the new outsider CEO, Fred Hassan crafted a clearly defined 'wealth-maximizing' strategic plan, finally managed to integrate Pharmacia with Upjohn and achieved the promised synergies. He was successful in creating a new corporate culture from employee input that transcended the nationalism or territorialism that had previously divided the company and destroyed firm values. Within eighteen months under Hassan's tenure as CEO, the company moved its headquarters to New Jersey, streamlined operations and management, and shifted marketing emphasis to the lucrative American market. In aggregate, four major factors can be shown to account for cross-border merger success. First, problems of integration are likely to be more severe when corporate culture issues are compounded by national and social cultural differences. Second, these cultural clashes can destroy shareholder wealth if not addressed in the early stages of post-merger integration. Third, such major compromises made for the appearance of equality as headquarters location and a split governance structure may lead to inefficient allocation of human and physical assets. Fourth, effective post-merger leadership can be achieved by creating a new corporate culture from the existing corporate and national cultures of the merging firms instead of adopting one of the existing cultures. In the case of Pharmacia-Upjohn, a CEO who was hired from outside and loyal to neither of the

pre-merger companies gained the trust of the employees to accomplish post-merger integration and create shareholder wealth. International mergers

4.2.2.2 Background Case for Comparison: Company U

Company U was formed by a 50/50 equal merger between two major European pharmaceutical companies (Company S and Company T) that took place in the latter half of 1990s. Our participant was Mr. Su, the general manager of the Taiwan subsidiary of Company S who later was appointed Country President of Company U, the merged entity. The new company name testified that it was an equal merger as the two pre-merger company names were discarded. At the European headquarters, it was decided that for the new Company U, the chairman and the pharmaceutical division head were to come from Company T, but the chief executive officer would be named from Company S. However, two years later, with the chairman's retirement, the CEO from Company S actually controlled the company and he appointed a new pharmaceutical division head from Company S. In essence, the initial equal merger had resulted in an apparent acquisition of Company T by Company S.

Mr. Su was instrumental in managing the two equal partners to realize anticipated synergies and a more competitive position in the Taiwan market. A world class consulting company hired by the European parent company was engaged to assist in post-merger integration worldwide. Through detailed human resource evaluation, he managed to pick the best managers to stay and work as his direct reports. It might be a coincidence or just political correctness that he chose half of his senior managers from each of the two partnering companies. The new company was to focus on original human pharmaceutical drugs as opposed to Company T's broad spectrum of generic and over-the-counter drugs, animal health, and agricultural chemicals products. Although Company S' operations in Taiwan was in fact smaller than that of Company T, its

pharmaceutical products, however, were newer and more competitive in market.

On the integration process, he called it sometimes difficult though "timing was under control". For example, the Country Manager was named only two months after announcement of the merger and his direct reports were appointed three months afterwards. Difficulties were encountered in picking the Finance Director because the two officers for the pre-merge companies were equally capable. The consulting company and the regional office in Singapore then had to assist in making the decision. Tact was used in consolidating the four business units for the combined companies. Mr. Su had spent a lot of time to communicate with the staff to ensure them a strong business enterprise was emerging and it required everyone's dedication and efforts. Company S had slightly higher salaries, benefits, and incentives for the employees while Company T employed few more expatriate senior executives who cost more in administrative expenses. After the repatriation of Company T expatriates, the cost savings were used to raise the compensation of middle managers. As a result, morale increased significantly as reflected in high sales and profit growth for the first year after merger. Mr. Su realized the importance of "people who were the ones to make a difference" and he cared about raising the incentives for the front-line sales people. It was also his emphasis on team work and adoption of Company S culture for the combined company that integrated the two partners. However, he still thought that the speed of integration was slower than desirable because communication took time to reach all levels. His direct reports had been cooperative and assisted him whole-heartedly in passing the messages across.

It must be noted that both Companies S and T had no experience in mergers and acquisitions or restructuring prior to this deal. Considering the fact that Company S took the leadership position in the combined company and the process went quite smoothly,

Mr. Su gave a high rating (rating 8) to its pre-merger planning and assessment efforts. And as Mr. Su was a seasoned executive in the Taiwan pharmaceutical industry, he got the support from Company T managers some of whom had worked with him before. The competitive advantage of Company T was considered to be only medium (rating 5) because its products were relatively old and had been sold in the marketplace for many years. Company T had not been doing very well in Taiwan with its selling organization and product portfolio. For Company T's stock of expertise and essential knowledge, they were informal and group embedded. For the combined company, the consulting company helped develop new standard operating procedures and job description for all functions and departments.

The two pre-merger companies were almost equally large in Taiwan's pharmaceutical industry; however, there existed a significant difference in corporate culture. At Company S which had divided into business units, communications were done expeditiously. On the contrary, Company T was more hierarchical with the foreign expatriates on top and the local staff as subordinates. After the merger, Mr. Su managed to unify the organization by emphasizing teamwork and the "Work Hard and Play Hard" spirit. At the initial stage of integration, Mr. Su met considerable resistance from Company T employees. He "pacified" them by raising the salaries and having sincere talks with their "opinion leaders" to show efforts in "communicating with everyone". The environment factors were favorable for the merger integration process in Taiwan because a precedent had been set just a couple years ago by the merger of two major international pharmaceutical firms. All relevant laws and regulations were clear to follow and compliance was not meant to be difficult.

According to Mr. Su, integration of business units posed a challenge because the concept was new to Company T staff. Also, it took a detailed and equitable evaluative

process for the selection of products as well as sales and marketing managers. Mr. Su recalled that Company T had a stronger Finance Department versus Company S and three manufacturing facilities in Taiwan. He eventually absorbed the majority of Finance and Production staff into his organization. He aimed at developing a "forward-looking" company with strong capabilities in new drug development. Therefore, he expanded the R&D (research and development) department so that more clinical studies could be conducted locally. There was substantial adjustment in organizational structure to carry out the mission of the new company. Mr. Su could not help but emphasized again that caution and fairness in the restructuring process were the factors contributing to its success. The change in management style was significant for Company T employees because the new company eventually adopted Company S culture pervasively.

Mr. Su acknowledged that he had used John Kotter's concepts in conducting change management. He would strive for "short-term/ early wins" in sales and then "celebration" to raise the morale of the acquired company employees. With encouraging news from the field, team spirit started to form and members ready for change. That was to show that he had added value to the merger and the entire company would benefit and move forward. Having gained respect and confidence among Company T staff, he would then drive for more significant changes, thus starting a beneficial cycle for changes including the more difficult changes in culture. To manage the integration worldwide, there was a change manager at the European headquarters of the merged company. At the country level, the Country Manager was given the responsibility to make it work. During the process, the consultants in Hong Kong were frequently asked for assistance on a case by case basis.

Commenting on integration outcome, Mr. Su believed that value had been added as

shown in increases in sales and the company's resources. He was able to build the company's reputation by sponsoring cultural events in Taiwan. In terms of task and human integration, he was fairly pleased with the outcomes giving them ratings of seven on a scale of one to ten.

In retrospect, Mr. Su thought that the integration process would go faster if it was an acquisition rather than an equal merger. He believed that employees were not "psychologically prepared" for the merger and wondered who was really in charge. Sales staff integration was somewhat difficult in the beginning and sales did suffer for a short period of time when morale sank. Human integration was the main focus in order to adopt the business unit organization structure of Company S. A substantial number of workers were asked to leave with offers of early retirement or severance packages. Outplacement assistance was given to qualified employees as well. During the process, it was important to give a good impression to remaining employees of Company T that the company was "caring and people-oriented". Due to the inexperience in mergers and acquisitions, Mr. Su relied on the international consulting firm for assistance and he was satisfied with the service provided. The headquarters provided an objective for the integration with culture change an important item on the agenda. Frequent correspondence and corporate guidelines provided instructions to establish standard operating procedures for all the functions. The direction of the new company was one that emphasized new technology abandoning any burden from the old companies. Mr. Su commented that sales and marketing were not given enough emphasis by the two companies all those years prior to the merger. It only became evident after two years that the sales and marketing functions should be strengthened in competitive American and Asian markets. Great efforts were then made to develop expertise in sales and marketing; this emphasis remained a top priority up to this date. Mr. Su also developed a more aggressive vision for the company: "becoming a leader in Taiwan's

pharmaceutical market". Mr. Su claimed that he had accumulated valuable learning and experience in the integration which he later shared with many other senior executives leading the process in other pharmaceutical companies in Taiwan. Mr. Su's success was recognized by the headquarters and he was promoted to Country Manager of Company U, China in 1999. Under his leadership, the company in China grew at 25% annually for the last four years, and the target was set higher at 33% a year for the next five years.

Attention turns now to the eight companies that are the subjects of this research study. Besides the top executive of each company, wherever possible, the senior staff were also interviewed in order to obtain a comprehensive perspective of the integration process at the respective entities.

4.2.2.3 Case Study: Company A

Company A was formed in the early 1990s in Shanghai as a three way joint venture of a European pharmaceutical firm, a Taiwan pharmaceutical trading company and a subsidiary of a state-owned medicinal company with initial capital of US$ 10 million. The state-owned subsidiary founded in the 1940s was performing relatively well at the time, but needed capital infusion to turn it into a viable and modern business enterprise. In the late 1990s, the Taiwan trading company acquired majority of the outstanding shares and became the predominant shareholder of the company. Eager to meet international GMP standards, the newly acquired company invested UD$ 12 million to build a new manufacturing facility in a new development zone in Shanghai. The company has obtained GMP certification for human drugs by China's State Drug Administration in 2000 and has currently a product portfolio of injections, capsules, oral liquid, and tablets. Product categories include antibiotics, vitamins, cardio-vasculars, neuro-system, antihistamines, gastroentero-system, biological, and dermatological products totaling over 80 kinds and more than 100 specifications. The company has also

obtained a Certificate of Manufacturing Facility (GMP) from Australia's Therapeutic Goods Administration. Besides selling to domestic markets, currently the company exports over 20 products to more than 20 Asia-Pacific and African countries. It is the goal of the company to become one of the leaders in the pharmaceutical industry in China and provide the Chinese people with modern and safe medical preparations. Mr. Au believed that advances in technology and management could not be made by pharmaceutical companies should they stay as state-owned enterprises. Company A will "try to match international manufacturing standards by improving its 'hardware' (that is equipment)".

After the acquisition in late 1990s, the company's general manager has been appointed by the Taiwan majority shareholder. During the new facility building phase, a vice president (a member of the family who owned the business) from the Taiwan pharmaceutical trading was stationed in Shanghai to oversee the operation. The present general manager, Mr. Au has had extensive management experience in several Western pharmaceutical companies.

The general manager Mr. Au considered the integration process as smooth and easy because "the timing was right and the atmosphere conducive to a happy merger". During the integration process, "the goal was to build a GMP approved factory through hard work and monitoring closely the process". The time taken for integration was considered as desirable, that is, the process was carried out at a good speed.

The strategic motive for the acquisition was to modernize the manufacturing facilities and compete successfully in the Chinese general drug preparations market. Due to the lowering of drug prices by the government and increasing competition from subsidiaries of major Western pharmaceutical companies, improvements in cost effectiveness and

direct exports to foreign markets are necessary for survival. The direct exports strategy was added only after tough price competition in domestic market was felt. The company "adheres to high quality standards in order to be able to export overseas at better prices than what can be obtained in domestic markets". Mr. Au who had experience in prior mergers and acquisitions in Taiwan did employ strategic analysis to formulate post-acquisition integration plans. The task of planning for and overseeing the integration process fell mainly on the general manager with him entertaining input from the Chinese minority shareholders. Planning and monitoring meetings were frequently needed top iron out difficulties and problems.

The company was lucky enough not to have encountered pressure from outside or within to change course or forgo some changes. At the corporate level, there were no changes other than the appointment of a Taiwanese general manager. The organizational structures and roles were kept the same as before. It was after a series of education seminars and training workshops that the staff and workers of the company "realize and own the vision and mission of the new company and share common values and beliefs". Mr. Au called this post-acquisition process a success and stated that this learning experience would be important for any future mergers and acquisitions that the company might have. However, he pointed out that "success also depends on the complementarities between the merging partners".

Mr. Cheng, head of the Administration Department, sat in the interview (did not fully participate in the study at the General Manager's request) and provided his viewpoints as a functional manager. He confirmed that basically there has not been any change in the set-up and functions in his department. After the merger, the objectives of the companies have been three-fold: (1) Manufacture high-quality drug preparations; (2) Place equal weights on domestic and export sales; and (3) Same quality products to both

domestic and foreign markets. Mr. Cheng stated that he had not been given new instruction in managing his functions and there were no new performance targets and measures established as well. The reason he gave was that "changes were not needed because all levels seemed to work harmoniously all this time!" However, minor difficulties and hurdles did surface and it was dealt with "honestly" by "individual, face-to-face explanation". On all business dealings, the staff and workers "strictly comply with standard operating procedures". Mr. Cheng said he was satisfied with the current organizational structure, company vision, basic values and beliefs. Moreover, he believed the company has achieved an "excellent reputation in Chinese pharmaceutical industry with a clear and promising vision for the future; the company has overtaken similar companies (merged or not-yet-merged) in terms of competitiveness in the market. The next step for the company is to consolidate the various drug manufacturing permits and attempt development of a unified brand.

The parent company (a family business) of Company A is one of the leading pharmaceutical trading companies in Taiwan with annual sales of US$100 million. The motives underlying the acquisition of the joint venture company was twofold: financial contribution and post-acquisition synergies. Mr. Bao, vice president of the holding company, served as project manager of the integration task force. He stationed in Shanghai for the duration the new manufacturing facility was built. It was a major investment of the magnitude of US$ 10 million.

Since the holding company had been purely a pharmaceutical and medical equipment trading company and had only sales and marketing functions, Mr. Bao acknowledged that it was not experienced in manufacturing at all. He considered the integration process often a problem. Cultural and mindset differences were quoted as factors slowing down the process severely. He is currently 80% satisfied with the outcome

today versus 20% only five years ago. Increasing sales and profits were the ultimate motives guiding the integration process which involved erection of a new GMP approved factory. Satisfactory results in both areas were obtained after completion of the new factory. The integration program was decided at the very start and there was no change in direction. The main focus of change was to be on management practices first and then production subsequently. The sales and finance departments were given the task of planning and overseeing the integration process to ensure that sales would not decrease and the budget of the new factory under control. The holding company's Human Resources department was not involved due to lack of practical experience in Mainland China. In order to have a smooth transition, there were only minor changes to the organizational structure. A Shanghai-born Taiwanese expert was subsequently named general manager in charge of the entire operation. Mr. Bao claimed that the company vision was constantly under review since the acquisition. He also considered the integration process was invaluable as it was the first time that the holding company has made an acquisition. The learning would be very helpful for future mergers and acquisitions.

4.2.2.4 Case Study: Company B

Company B which is a major Chinese pharmaceutical group company headquartered in Beijing has acquired controlling interests in two dozen pharmaceutical companies covering more than 14 provinces in recent years. Recently, the media has raised questions about how well it has integrated the acquired companies into the group company. The company is still partially controlled by the Beijing Municipal Government while shares are openly traded in the Shanghai Stock market. Company B is regarded as one of the leading companies with a nationwide sales network.

Mr. Dong, our interviewee, was a member of the Board of Directors and a senior

member of the Investment Committee who had also acted as managing directors of the acquired companies responsible for post-acquisition integration. The company is currently experiencing major difficulties in managing the acquired companies with many of them reporting losses. Mr. Dong started with the acquisition proposal which often was not done with due diligence. He called the feasibility reports or investment analyses "very crude" and "lack of sophistication". The feasibility report would contain a simple plan for future departments and staffing, products and direction of future development. The Investment Committee relied too much on outside investment companies to provide investment analyses which were usually not done professionally. As a result, unrealistic profit projections were made based on erroneous functional analyses and overly optimistic product development plans. Due diligence on target company's assets and liabilities was never properly conducted with the legal and financial aspects frequently unattended. Contract of the acquisition only provided information on target company's organization structure, staffing and amount of investment as local government wanted to strike a quick deal by giving some policy concessions. Big surprises struck soon after the deal because no proper asset evaluation was done before the deal was consummated.

Mr. Dong cited an acquired company in Hubei province that was a failed case of financial integration. Property rights were unclear because of multi-mortgages to third parties existed prior to the acquisition and the due diligence process failed to uncover the issue. There was also excess sales staff of 350 (about 50% of sales force) to be laid off because the sales volume of US$ 40 million did not require such a huge sales team. The redundant staffing problem seemed to be a major issue that continued to hurt the bottom-line/ profits. Company B is still struggling to re-negotiate deals with the various labor unions to change the status of contract line-workers to temporary workers (a form of outsourcing) in order to improve production efficiency. The major problem in

financial function integration is the lack of professional staff in taxation, legal affairs and internal audit departments in the acquired companies. This phenomenon will only disappear when China has educated sufficient number of qualified workers in these areas over a long period of time.

In the company's acquisition of 81% of equity of a Hubei provincial pharmaceutical company, the provincial government still controlled 10% and the labor union 9%. The law court "sided with the provincial government' in its ruling on the hidden mortgages issue. In its first few M&A deals, Company B lacked the required experience in due diligence and it resulted in significant difficulties during the integration phase. Worse yet, the feasibility studies were rough enough not to elaborate on future development plans and investment analysis had focused solely on terms of the contract. In some cases, the investment project managers quit soon after the transaction was completed. Basically there was no manager with good knowledge of the project held responsible for the comprehensive integration of the acquired company into the parent corporation. Poor cash flow is haunting the Hubei subsidiary at this time.

The lessons learned by the senior management of Company B can be summarized in few areas: (1) human resource issues; (2) Non-performing and Ineffective assets; (3) cultural issues; (4) pitfalls of local government incentives; (5) regional differences; and (6) differences between manufacturing and distribution/retail companies. Firstly, human resource issues were the most difficult to resolve. Despite the identity of the acquired state-owned entity had been changed, it would be difficult to change the life-long permanent employee status of the workers. Huge compensatory payoff was necessary to change the status of workers in the case of a Beijing subsidiary while the courts ruled the laid-off workers had the right to return to work in the southern province of Jiangsu. Excessive labor costs had caused the Jiangsu subsidiary to incur net losses annually. It is

now clear that in future feasibility studies, the issue of excess labor has to be addressed. Probably this issue will become the core of negotiations and even a deal-breaker. However, it needs to be resolved before a deal can be struck. A contract-worker system through which employees can be hired as well as laid-off will match more closely with modern enterprises under a market economy. The original five types of insurances provided by SOEs would no longer be the concern of the privatized entities; rather, such welfare benefits should be dealt with by other institutions.

Next, the issue of non-performing or ineffective assets will pose as a burden to the acquired company if remained unresolved. These assets which are unrelated to the direction of future development need to be eliminated through negotiations before completion of the merger/ acquisition. Usually a certain number of employees is attached to or employed to operate on each asset. It is advisable to deal with the employees linked to these assets at the same time at the negotiation table. Triangular debts owed among any three parties will have to be eliminated during the process as well in order for the acquired company to start with a clean sleigh after the deal.

Third, the cultural differences in organizations and governments between Beijing and the provinces (where the acquired company was located) were phenomenal. For example, Shanxi, an inland province, is known for its conservatism in comparison to the more liberal coastal regions. It exhibited more symptoms of "rule of man" rather than "rule of law". And "to change the cultural environment of the acquired company would require tremendous efforts and time", said Mr. Dong. This organizational culture change could "still be achieved following the example set by Xian Janssen, a very successful Sino-US joint venture in Shaanxi, the neighboring province". When a provincial government offered a target company with enticing incentives, it usually stipulated that the senior management could not be touched. "That was not a negotiable item; or the

contract could not be signed. Moreover, all local rules and regulations dictated by local authorities had to be reckoned with post-deal; the integration process had never been easy".

Fourth, local government tax incentives (i.e. tax rebates) did help the acquired companies to report net profits during the first three years after acquisition. The support also came in such other forms as information and preferential treatments in dealings. Since these short-term incentives would eventually disappear, they should be treated as temporary benefits in the investment analysis model only. A misunderstanding or oversight of the short-term nature of these incentives had led to bad decisions and caused the current financial difficulties of Company B.

Fifth, the regional differences are more than significant between eastern and western China, and between developed and under-developed areas. Different corporate laws and regulations can be enacted by different levels of government, that is, provincial and municipal governments, and autonomous regional governments in China. Thus, the acquirer needs to make efforts to learn how to comply with the various laws and regulations during the integration process if the target company is to stay viable after the acquisition. Failure to recognize the importance of compliance will cause serious problems for the operation.

Lastly, Company B had failed to recognize the vast differences between operating a manufacturing company and running a distribution/retail pharmaceutical firm. It was too anxious for expansion and became indiscriminant in acquiring various types of pharmaceutical companies in many regions where the laws and practices were not at all similar. Without advanced management systems and techniques, it was impossible to integrate the two dozen acquired companies to the group company headquartered in

Beijing.

For almost all acquisitions made by Company B, a three-year evaluation of results did not indicate financial or strategic success. In conclusion, Mr. Dong said that "more emphasis should be placed on integrating the products with distribution networks which was under-utilized. And software (i.e. systems) is more important than hardware (i.e. assets and equipment". "A three-year integration plan should be formulated for the acquired target firms. More haste means less speed. Unpleasant incidents occurred in Jiangsu and Xian where workers reacted negatively to the takeover and appointment of new general managers. The objectives for M&A should be aimed at increasing market share and sales revenue. Timing is always important: years ago, M&As were considered to be risky business; now without pursuing M&As, the company will fall behind!"

Mr. Fan who was once a senior manager of Company B, now a senior researcher at a pharmaceutical industry development and research center confirmed that "most companies did not have clear M&A strategies; and the main motive was just to follow the crowd and get equity funding from the stock market through initial purchase offering (IPO). Company B was not an exception; synergies and shareholder value were not properly pursued as in the Western developed markets." Certain Company B's assets have been discovered to be missing for various reasons and its stock price has fallen significantly recently.

On post-acquisition integration, Mr. Fan suggested three major components: (1) Financial management; (2) Culture; and (3) Administration. Firstly, to ensure integrity of the financial/ accounting system, the general manager of the acquired company had to be re-appointed. Second, organizational culture for a manufacturing company was drastically different from that of a distribution/ retail firm. It was extremely difficult to

merge these two cultures. Lastly, Company B lacked talented managers with a broad perspective for the group of companies. Mr. Fan believed that five years of government-initiated pharmaceutical M&As would end in 2004 and the next stage of horizontal mergers/ acquisitions would be market driven instead. Core competencies based on values, technology and management would deliver success of M&As in the future. Opportunities and challenges would co-exist for good M&A practitioners in the Chinese pharmaceutical industry.

4.2.2.5 Case Study: Company C

Company C, a 100% privately held company based in Central China, and a conglomerate of over 30 businesses was founded in 1995. It first focused on tea drinks business, and two years later, diversified into pharmaceuticals and medical instruments via acquisition of state-owned enterprises. In the millennium, it had also acquired biotechnology firms and aimed at becoming a technology-driven corporation. In China, Company C was been to be exceptionally skilful in its maneuvers in the capital market; it grew through M&A to the size of US$ I billion in annual revenue. The founder of the company, now a legend in expansion through M&A in China, had a vision of bringing the company to among top 30 pharmaceuticals in the world with annual sales of US$ 4 billion in 2010. The five business groups to be developed are (1) prescription drug; (2) Over-the-counter (OTC) drug; (3) Traditional Chinese drug; (4) Modern herbal drug; and (5) Modern pharmaceutical logistics. The senior management comprised of non-Chinese expatriates with extensive international business experience. At the tenth anniversary meeting this year, the founder also emphasized implementation of new management systems and organizational structures to consolidate the gains from the completed M&As. The company was to raise the overall caliber of the "Team", to build a solid company culture, and turn positive energies into higher productivity.

The administrative headquarters was then located in Beijing and Group Company C's Associate CEO, Mr. Chen agreed to an interview in June, 2004. He had joined the company in 1997 as marketing director and was soon promoted to head the sales and marketing function and lead the M&A projects. Mr. Chen's marketing background in a European pharmaceutical company operating in China was considered to be vital to Company's success in its early years. In 1999, he had set up a sales administration structure based on seven regional and 28 provincial sales offices. His sales team for prescription drugs then had a headcount of over 300. Under his leadership, the sales of their flagship OTC cold relief drug increased over tem times from 2000 to 2001. As an expert in customer relations, he set up platforms on which Company C maintain open communications with the wholesalers, distributors, retail stores, hospital administrators, and even the drugstore sales staff. In 2004, he also became the Official Spokesman for the Group Company. Speaking on behalf of the company, Mr. Chen stated that 100% of the M&As (more than 20 in number) were successful. The company had a strategic development objective to becoming a leading technology firm in China and M&A was the designated route. Company C has acquired quite a few name brands in OTC cold and flu drugs through M&As.

Mr. Chen considered the M&A contract negotiation process was crucial and difficult. The evaluation effort had to be carried out very patiently and diligently. As a privately held company, Company C did not receive favors from the State, nor would it be required to absorb a money-losing SOE into the conglomerate. It could follow its own strategic motives and analyses in arriving at sound M&A decisions.

The criteria or principles for M&A target selection were (1) Beneficial to the State in term of tax revenue; (2) Beneficial to local government in the form of SOE privatization: (3) Beneficial to employees as a result of job retention; and (4) Beneficial to Company C's investors.

Effective planning on post-merger integration process made subsequent implementation smooth and easy, according to Mr. Chen. There was always a PMI task force appointed by the Group Company Business Integration Department for each M&A. Initially, senior management of the acquired company was to stay unchanged. In three to six months' time, the transplant of best practices in production and managerial systems would take place. The departments affected were basically Finance, Administration, Sales, and Production. During the implementation process, full attention was paid to organizational learning and process re-engineering.

Mr. Chen cited the case of an acquisition of a large SOE in Qinghai province where both product portfolio and productivity were enhanced after successful integration. At this acquired company, ninety percent of the workforce remained untouched. Also unchanged were the location of company registration, the tax authority for tax collection, and the production bases and assets. However, due to similar raw materials used in production across the companies, the purchasing function was centralized. Other resources were optimized as well through centralization. Consolidation of the sales force under regional sales offices eventually led to the establishment of business divisions. For financial accounting control, cost centers were used for budgeting and reporting. The treasury and financing functions were very important to Company C as it was still on an aggressive M&A program; hence, they were brought under the company headquarters' control. With sound financing, purchasing, and sales promotion practices in place, the acquisition started making significant contribution to the group even during the first year.

Over thirty M&As had been conducted by Company C over a period of ten years. The strategic motive was: "Become Big and Strong". All efforts were targeted to integrating

the acquired companies to the conglomerate with emphasis on revenue and profit increases. This mission was so clear and the pre-deal investigations so thorough that the direction of integration seldom needed adjustments. The task forces for and in particular, the team managers, were given credit for integration success. High-quality strategic analyses, exhaustive M&A negotiation and due diligence, and business integration were cited as the contributing factors for 100% success. On all three levels of value creation, task and human integration, Mr. Chen gave ratings of 8 out of the highest possible 10.

4.2.2.6 Case Study: Company D

Company D was a major Shanghai-based state-owned pharmaceutical group with annual sales of US$1.60 billion, and market valuation at US$ 330 million in 2002. Its exports also ranked on top of all Chinese pharmaceutical companies. This group was formed by the decree of Shanghai municipal government in its effort to restructure local pharmaceutical SOEs. In 2002, Company D was merged into one of the largest publicly listed conglomerates (core businesses in textile and pharmaceutical and ranked among Top 80) in China; and since then, massive restructuring took place in Company D's businesses. Company D had a very complex organizational structure with over 50 second-tier subsidiaries and nearly 300 third-tier companies. Although it manufactured about three thousand specifications of products, only a handful had annual sales higher than US$30 million. The major product categories were antibiotics, Chinese traditional medicine, and over-the-counter drugs. There was minimal R&D funding for development of new drugs. The group was considered to have a very loose organizational structure with pervasive redundancy in overlapping departments and functions. This was typical of SOEs at that time when the State was initiating corporatization through M&A.

Soon after the merger/restructuring was announced, a well-known international

consulting firm was hired to prepare a strategic plan for the pharmaceutical group. The consulting project which started in late 2002 aimed at providing a blueprint for the group's IPO (initial public offering) in 2006. Also a sales budget by year was developed for the eight years leading to 2010. The pharmaceutical group would focus on developing original drugs while emphasizing distribution and brand as core competences. The key strategy was to: (1) consolidate domestic and export sales; (2) integrate raw material, imitation, and original drugs: (2) integrate retail and wholesale operations. The organizational change program would be carried out in three phases: First, change organizational structure by establishing business divisions; then set up performance evaluation and incentive programs; and lastly, change the functions of the staff departments at the headquarters.

On organizational restructuring, it was deemed important to consolidate the complementary and profitable businesses to achieve cost advantages and other efficiencies. Also, attention was needed on straightening out the complex equity relationships existing in the organization. It was finally decided that four business divisions (antibiotics, prescription drugs, OTC/Chinese traditional medicine, and raw material drugs) and five subsidiaries were to be created. The non-core agricultural and animal drugs were diversified through restructuring or simply sold. After integration, only ten brand names were to remain with two in each of antibiotics and Chinese traditional medicine.

Dr. Jiang and Mr. Han who used to head up the two antibiotics companies within the group and worked on the merger, moved to lead the consolidation in the OTC and Chinese traditional medicine division in early 2004. Dr. Jiang then assumed the president's position of this division while Mr. Han became the deputy general manager in charge of the OTC retail shops and the Chinese traditional medicine brands. There

was another deputy general manager responsible for the production of Chinese traditional medicine within the division, but he was not available for an interview. Dr. Jiang held a doctorate in economics while Mr. Han was an MBA from the top business school in China. They shared their experiences in two major post-merger integration efforts within the pharmaceutical group.

With eight years' senior management experience with the group, Dr. Jiang had also been the general manager of seven businesses. He acknowledged that for the divisions of antibiotics and Chinese traditional medicine (CTM), the competitive advantages existed in comprehensive and large-scale operations besides abundant resources that could sustain continued development. There was low market risk because the brands had very good reputation in the region and abroad. However, the major drawbacks were new original drug development required heavy investment in R&D and long turnaround time periods. Also it was very time consuming to develop talents in R&D and other functional areas. Reflecting on the integration process, Dr. Jiang considered it often a problem for a number of reasons. First of all, it was very difficult to merge corporate cultures existed in dozens of small and medium sized companies. Second, it required tact to balance the interests groups so that the businesses could be merged without resistance from the managers. Third, the challenge was also great in the attempt to adopt a common management system. Lastly, human integration was difficult because of the existing complex hierarchical organization structures.

Dr. Jiang had hoped to use Supply Chain Management to improve the competitive advantages of the merged companies. He noted the biggest problem in Chinese management was that management was still "not standardized". It was "the rule of the man, and not the law". It was very difficult to get employees to follow departmental policies and standard operating procedures. He had not been successful to implement an

ERP (Entrepreneurial Resource Planning) system due to resistance from his staff and employees at lower levels of the hierarchy. There were also factions and cliques to which people pledged support, but not to the formal organization. He was worried about how to "export management system to the subsidiaries" successfully. Dr. Jiang was also keen to create a strong corporate culture for his division to rid the employees of "passive attitudes" common to SOE workers. He believed that if corporate culture could be changed to one of "caring and teamwork-oriented", better results would be achieved. However, so far, he had not accomplished this goal.

Despite difficulties in implementing advanced management systems for the division, progress had been made in changing the sales organization and the way of selling. Following the advice of the consultants, management had been using documents, workshops, and meetings to communicate with all the workers on details of the integration plans. The board of directors of the parent company with its trustees had overseen and monitored the integration process very carefully. However, due to the huge number of employees (over 45,000 in total) involved in the merger, it was a daunting task to create a new corporate culture within a short period of time. Nevertheless, the financial results were promising for the division two years after the merger and it seemed that the group would have its initial public offering as scheduled in 2006.

Mr. Han, who was the Change Manager for the merger of the antibiotics companies, became the deputy general manager of the OTC & CTM division in 2004. He first commented on his role in merging the antibiotics companies beginning in 2002. The combined antibiotics company was among China's top five antibiotics manufacturers in 2004. There was a clear direction for merging the companies and manufacturing facilities from the outset, but the integration plans were relatively vague. The sales

department of the combined company was to become very strong and effective by selecting the best salespersons from the talent pool. Though initially the situation was somewhat "disorderly", the sales team eventually emerged as exceeding expectations in meeting its challenges.

With no prior experience in mergers and acquisitions, the divisional general manager appointed change managers and based the action plans on strategic analyses. The Party Commissioner's Office had direct access to the Managing Director of the group company so that issues were quickly discussed and settled. There were pervasive structural and role changes affecting the managerial and supervisory staff. Rivalry increased among managers from the two companies who vied for more power and high positions. Eventually, the vision, mission and beliefs were adjusted to those of the stronger of the two companies. Mr. Han acknowledged that he had accumulated learning from this merger as a change manager which helped him to implement the OTC/CTM merger afterwards.

Elaborating further on merger of the businesses, Mr. Han confirmed that due to the drop in prices, one of the companies had to stop its OEM (original equipment manufacturer) business which accounted for 30% of sales. The significantly lowered productivity necessitated layoffs of workers through conversion of permanent workers to contract workers. The Party officers then assisted the merged company in negotiating with the workers' unions and finally obtained their cooperation after satisfactory level of compensation was agreed upon. Reflecting on the process of integration, Mr. Han described it as often a problem in three areas. First, communication between production and sales department was clearly not effective as they spoke from their positions of vested interests. Second, systems planning and execution met with resistance as most workers did not embrace change. Third, it was the question of command, that is, which

of the two companies should have the command of the merged company. In terms of salary and wage scales, it took a while to make it equitable for all of units within this antibiotics division. Staffing adjustment was massive, but, it did not get the support of the workers. Some accepted the adjustment "quietly" while others expressed "inappropriate opinions". The incentive system had undergone changes as well so that it became more "effective". On other departmental policies and procedures, Mr. Han said their effectiveness and efficiency were raised only to a minor degree. On the outcome of the merger of antibiotic companies, Mr. Han regarded the overall value creation was low (rating 3), task integration in production and finance (rating 6) and human integration (rating 6) mediocre. The divisional general manager who led the integration seemed to have lacked a clear vision for future of the combined company.

Mr. Han then went on to describe the merger of the OTC/CTM businesses which outcome he called fairly good (ratings 7 to 8). The Chinese traditional medicine brands that the OTC/CTM owned were among the best known for long history and high quality inside China and abroad. It was also very profitable with gross margins around 65%. It was decided that the division would go public when its sales reached US$ 1 billion in about three years' time. Despite strong brands and high profit margins, productivity was low due to small scale of economies and deficiencies in management and quality assurance. The strategic objective for the merger was capitalizing on complementarities leading to initial public offering of China's leading traditional medicine company. So far, the division had not fulfilled the requirements for IPO and integration had to continue in organization structure and culture. There was to be a change in the chain of command and reorganization of administration, sales, and marketing departments. Mr. Han considered the integration process "problematic, painful, risky and under pressure" because staff and workers did not fully cooperate. However, applying appropriate action plans, the overall integration speed was satisfactory. During the process, change

programs did not meet too much resistance from the workers. The production facilities would take the lead in restructuring and be followed by the sales and distribution units. The environment was favorable for the restructuring effort because Shanghai municipal leadership was fully supportive. Aside from the conversion from permanent to contract worker status and certain demotions, there were almost no layoffs of staff. The employee incentive programs were also subject to review and more revision down the road. Mr. Han commented that many more changes were needed in departmental or functional policies and procedures. The OTC/CTM division subsequently acquired two more famous Chinese traditional drug companies in other provinces and further integration effort was needed. It seemed that the vision of becoming China's pre-eminent traditional medicine company was driving the senior managers to learn by trial and error on how to integrate the merged companies on all aspects of the operations.

Ms. Kong, Party Officer of the division agreed to be interviewed. After the merger, she also worked as Director of Administration and Human Resources Manager of the sales subsidiary within the division. She confirmed that integration of the sales subsidiaries often encountered problems. Under her direction, the organization of the sales subsidiary was constructed, and the salary/ wage differences reconciled. The next step would be to gradually integrate the corporate culture. As the integration process under her jurisdiction took only six months, she considered the speed was very fast.

Since the merger, the Human Resources department was asked to conduct various training seminars for team leaders, such as leadership training and career planning. Moreover, she revised the performance evaluation criteria and measures. The aim was to stabilize the work force so that work functions were improved and not affected during the integration process. The ultimate goal for her department was twofold: (1) Normal

operations during integration; and (2) Enhancement of management practices and functions. Ms. Kong confirmed that there was minimal employee resistance for the changes that took place after the merger. Despite no clear instruction was given, she adapted to the demands of the situation and initiated changes in organizational structure and functions. That matched the Party Officer role that she still assumed, although she believed that role had diminished after the merger. The basic beliefs of the company were emphasized again as "Sincerity and Care for Life". Ms. Kong viewed favorably the company's post-merger profits which had doubled after a year, but she was not sure whether the company's competitive position had been improved. As for the outcome of the integration, she was quite pleased with all three counts of value creation, task and human integration. She noted that given the short turnaround time, the changes should not be too drastic or the company's operations would be affected. Also she would be flexible enough to accommodate the requests from the group company.

Ms. Li, deputy director of the Administration department of the division also shared her experience with us. Before the merger, she was deputy general manager of the dietary supplement company in charge of finance and marketing. For the new division, she considered that quality assurance and after-sale service were the areas needed improvement. Her own role was, however, not well defined and she could foresee a change forthcoming soon. At the time, she focused on operational issues such as consolidating the necessary licenses for drug production and work-flow. Her office would perform detailed analyses and made recommendations for procedural changes. Because of the department's great efforts in coordinating programs of change with various companies and departments, she viewed her role as very important for the sometimes difficult integration process.

In terms of staffing adjustment, she disclosed that while there were no layoffs,

demotions were common. There was about a year's transition period when changes in policies and procedures progressed very slowly. Senior management in charge of the integration process had wanted to implement matrix management reporting systems; they eventually realized that it would be extremely difficult to break old traditions. Ms. Li also noted that the adaptability of staff and workers was poor. Thus, the integration outcome on all counts was below expectations (rating 4 out of 10). Within her own department, she had tried to align objectives with those of the company and convinced the staff to adopt the new work procedures. However, she found the staff relatively passive because of their beliefs in Confucian "Way of the Mean". Using a team management approach, Ms. Li believed that through continuous communication and methodology adjustments, the group company's culture could be changed, and sales and profit objectives met in three years.

At year-end 2004, the conglomerate expanded its pharmaceutical operations to Beijing and realized sales revenues exceeding US$2.5 billion for the year. The conglomerate was reported to have made one of the top ten acquisitions in China for the year.

4.2.2.7 Case Study: Company M

Company M, a Beijing based conglomerate (real estate development, stock brokerage, and trading) with recent M&As in five provinces and ranked among China's top pharmaceutical groups, deserved attention in its integration practices. Mr. Ma who was a member of the Pharmaceutical Policy-Making Committee and general manager of an acquired drug company agreed to an interview. Mr. Ma had subsequently left the group and joined another firm. The group's major drug manufacturing (both western and Chinese traditional medicine) facilities were based in Zhejiang, Jiangsu and Sichuan.

Mr. Ma held the view that most Chinese pharmaceutical M&As were conducted in the

hope of establishing a beachhead in the industry first and integration falling into place later. Most senior executives under-estimated the complexity and contradictions involved in the actual process of integration which met with great difficulties and failure. In his own case of acquiring the Chinese traditional medicine company in Jiangsu, he managed to get good results in terms of cash flow during the first two years by implementing three policies. First, he found cost savings from the purchase of raw materials. Second, he eliminated employee redundancy by laying off temporary employees. Third, he raised the prices of the products. After that, he acknowledged that he could no longer improve profits for the company. That might explain his departure from the group immediately afterwards.

In Mr. Ma's words, it was "easy to do an M&A, but very difficult to manage the business afterwards". He noted the lack of management talents and very nature of corporate governance in China to be the key issues. The group used to hire management talents from the Chinese-foreign joint ventures and hoped that they would help transplant modern management systems to these formerly SOE companies. However, most likely these high-paid managers would not get the cooperation from the old staff to drive the changes needed for success. After the contract term was over, as the high expectations for them were not met, these managers would return to work for the foreign companies or joint ventures once more. The second issue of corporate governance found its roots in unclear and complex property rights which in many corporatized SOEs, the local governments still owned significant equity shares. Only after a thorough reform in property rights would management be free from local government intervention in its operations and business decisions be made optimally.

Mr. Ma considered product innovation and market diversification as the key marketing strategies for success of a newly acquired company. However, it was well-known that

the development of a new drug required huge investment and high technological know-how. The process was also under close governmental monitoring and usually timing-consuming. As a result, the payback period was very long and the success not repeatable. On market diversification, strong marketing and sales emphases would hopefully expand the company's market share in various sectors. In sum, Mr. Ma commented that more and more M&As would take place in China because consolidation for efficiency continued to be necessary in the fragmented but highly profitable Chinese pharmaceutical industry.

4.2.2.8 Case Study: Company N

Company N was formed in the early 1990s as a Foreign-Chinese pharmaceutical joint venture in Zhejiang province with the local partner as minority shareholder. The foreign partner was a group of Taiwanese investors with U.S. drug manufacturing background while the local partner was a major domestic pharmaceutical SOE. Company N's business concentrated on production of raw material formulations in tablets, capsules, injections, and ointments. Since it had achieved high standards in manufacturing, its products were mainly sold to overseas markets. In the late 1990s, the local partner initiated the friendly divestiture as it sold all its equity to the foreign JV partner on a cost plus interest basis. This was viewed as beneficial to both partners because the local SOE could embark on its own expansion program using the repatriated funds and the foreign partner could have 100% of management control over the business.

Mr. Niu who became Executive Vice president after the acquisition assumed the role of change manager for the integration process. He first tried to reconcile the accounting records as the previous vice president (appointed by the local partner) had left behind doubtful accounts. Two other senior managers in charge of production and engineering also returned to work for the local partner. Mr. Niu focused the integration process on

three areas, namely, sales and marketing, finance, and human resources. As sales and marketing were already considered to be the strengths of the company, Mr. Niu would like to fully utilize the capabilities to expand its market. He then managed to increase its raw material exports to world class pharmaceutical companies abroad. For finance and human resources, he desired to "gain full control of these two functions and install western management styles and practices". Seminars and workshops were conducted to train employees to adopt new concepts (such as GMP) and western management style and philosophy. Promotions of a number of supervisors helped improve morale among the production workers during the early stage of integration.

Mr. Niu regarded that Chinese national culture impacted the work ethics of the company which was quite different from the western counterparts. Before the acquisition, corporate identity and culture were very close to the local partner's as most managers were transferees. Mr. Niu gave an example of implementing best practices and benchmarking to improve cleanliness of the boiler room which was sloppy before. This good practice eventually influenced the former local partner to establish higher standards to qualify GMP as well. In the finance area, Mr. Niu made an effort to eliminate supplier kickbacks commonly found inside China.

The takeover met with little employee resistance because higher incentives of 25 - 30% were instituted. The conflict between management and staff (due to a different western management style) existed before also disappeared quickly. Senior management had taken the lead in the integration process with the objectives of streamlining the operations and expediting decision-making. Detailed action plans were formulated and carried out to achieve the desired outcomes. The acquisition resulted in value creation via profit increases and reduction in waste. Various task integration efforts in sales and marketing and finance were quite successful (rating 7). Human integration as exhibited

in organization structure changes was accomplished (rating 8). In 2004, Company N started an expansion project that would triple production capacity in a new manufacturing facility to be constructed nearby.

4.2.2.9 Case Study: Company P

Company P was founded in 1992 as a pharmaceutical TVE by a textile company in a local industrial park in Shaoxing, Zhejiang Province. It was common for textile companies to diversify into drug manufacturing for profit motives at the time. Due to falling prices and lack of expertise in the pharmaceutical industry, Company P was closed in 1996 until 1999 when a leading provincial pharmaceutical firm acquired the assets and turned it into an "indirect" subsidiary. Mr. Pei who was the deputy R&D director of the parent company led a team of ten internally transferred professionals in an asset and debt restructuring effort. In 2001, it became a GMP approved raw material drug manufacturer with its own R&D center. In 2004, its annual sales of four main products reached US$15 million with 10% from exports.

Before the acquisition in 1999, Company P was licensed to manufacture only one product which then had to be sold to other pharmaceutical companies for further processing. After Mr. Pei became general manager, through capital infusion, he increased the product lines to five and obtained GMP certification within two years. The company started making a profit a year after restructuring and stayed profitable ever since. Mr. Pei commented that the restructuring was supported by the local township government so as to revitalize a local enterprise. The major challenge during the M&A integration process was to build a corporate image and an effective organizational structure for business development. The process went quite smoothly because of the support from local government which eventually relinquished its 10% equity stake. The senior management for implementing changes consisted of the general manager, the

finance and engineering managers. Requiring great effort was evaluation of assets and productivity improvements.

Due to good relationship between the parent company and the provincial drug administration, additional product manufacturing licenses were obtained with relative ease. The direction of the acquired company was targeted at raw material drug production for sale to the parent company and other drug companies. An R&D center was established in cooperation with a university in Hong Kong in order to develop Chinese traditional medicine, dietary supplements and over-the-counter (OTC) drugs. In mid-2004, a plan for relocation to a larger site was being developed at the request of township residents due to environmental concerns. Mr. Niu expressed his willingness to accommodate this policy revision in land use. The corporate vision was stated as "People-oriented and Serving Society". On management style, Company P followed that of the parent company very closely. In sum, Mr. Niu was very pleased with the outcome (rating 9) including value creation, task and human integration. However, he noted that after China's WTO accession, the company would need to look for ways to compete with incoming international pharmaceutical companies and stay a viable entity.

Mr. Niu then agreed to let his six direct reports to be interviewed. The following is a summary of their views on the company's post-acquisition integration. Mr. Jin, manager of the engineering department, was transferred from the parent company to Company P when the acquisition was made. He was instrumental in making assessment for such additional equipment as the gel cap production line needed for the business. The decision to purchase domestically manufactured machinery helped expedite the business restructuring program. Engineering designs were drafted within a very short period of time and contracts negotiated within two weeks thereafter. After installation of production equipment, production capacity was soon raised to 25 tons per month. He

also developed standard operating procedures and incentive/ bonus plans for the production lines. During the integration process, frequent communication enabled development of a team spirit and subsequently higher standard of safety at the workplace. He considered the outcome of integration very satisfactory (rating 8). Looking into the future, Mr. Jin believed that adjustments would be necessary if the company was to remain competitive and satisfy the parent company's business requirements.

Mr. Liang, currently manager of production, used to be head of R&D. He was promoted to the current position when his predecessor returned to work in the parent company. The company's competitive advantage was in vitamin B6 which the company produced at low costs. His challenge was to control costs (maintenance costs and spoilage) and increase efficiency so as to improve profit margins. During the integration process, the mandate for him was to transplant the parent company's systems, policies, and procedures to the acquired company. The parent company also provided technical assistance on its GMP certification process. Due to its geographic location (about 20 Km from Shaoxing City) the company encountered problems in hiring and retaining talented personnel for its operations. It was already in the company's strategic plan that a new plant would be built for expansion into Chinese OTC drug and dietary supplement manufacturing. On the outcome of integration, Mr. Liang was only fairly satisfied (rating 6) because of the difficulties in keeping professional staff in his department.

Mr. Lu, quality assurance manager, was also responsible for new product development. Liaison with government regulatory agencies was an important aspect of his job. The company had also passed for ISO 14000 which helped increase export sales. He believed that quality was the pre-requisite for competitiveness in the marketplace. High standards

of quality control were used to ensure quality of products. A quantified performance evaluation system had been installed to reprimand or reward employees. It was a fair system being applied to all workers without exception. He hoped that the company would fully capitalize on its potential in R&D and diversify quickly into the Chinese traditional OTC market.

Ms. Zhang, finance manager, was satisfied with the integration process during which financial/ accounting systems were transplanted from the parent company. In 2002, a new software system was installed and it posed certain challenges in reconciling the accounts. Currently, month-end closing which took three to four days was considered to be up to standard. During the post-acquisition integration period, her mandate was to perfect financial management and set up a sound cost management system. Frequent communications with the general manager enabled her to formulate operating and strategic plans for the company. During the two recent years, due to frequent changes in tax laws, extra efforts were made in attempts to minimize taxes paid. Ms. Zhang was pleased with the outcome of integration, giving ratings of 8 to all three counts of value creation, task and human integration.

Mr. Wu, sales and marketing manager, was responsible for developing the company's domestic and export markets. Capitalizing on price competitiveness originated from productivity gains in Vitamin B6, increasingly substantial sales were made to Italy, India, and Taiwan. In a highly competitive international market, Mr. Wu deemed accurate market intelligence and product innovation the keys to success. In his opinion, China's pharmaceutical firms faced problems in overlapping investments within the industry, high energy consumption and undesirable environmental pollution. To overcome these problems, Company P would have to be creative in adjusting its product portfolio and reduce its dependency on the parent company or large customers.

As Mr. Pei, the general manager, had come from the parent company, it was convenient for him to adopt the same policies, procedures, and business processes. Mr. Wu called it "a continuation of the parent firm" when it came to management philosophy and style. Mr. Pei had shown leadership in integrating human resources under strong team spirit and common interests. For the sales and marketing department, selling strategies and marketing plans were developed through a process involving the general manager and the finance manager. The company's R&D and learning capabilities would drive product innovation and market diversification for achieving higher sales and profit objectives. Mr. Wu was very satisfied with the post-acquisition integration outcome giving a rating of 8 to all three counts.

Finally, Mr. Xu, manager of administration and human resources, commented that the company had very good relationship with the local township government. That was very important as township residents were increasingly concerned with the emission of polluted gases by the factory. During the integration phase, Mr. Xu was responsible for organizational restructuring and revision of the shifts at the production lines. Through trial and error, he succeeded in building a functional organization and implementing employee compensation and benefits programs. Internal training and employee development programs were also established. He also managed to hire a significant number of workers from neighboring provinces who became a stable workforce with lower turnovers than local employees.

Mr. Xu emphasized compliance with the labor laws in the company's human resource practices. With employees' cohesive team spirit and pervasive confidence in the company, he expected that profits would continue to grow. A brighter future would come with the completion of the new manufacturing plant for OTC Chinese traditional

medicine and dietary supplements.

Company had transformed from a loss-making enterprise to a viable growing pharmaceutical company under the leadership of the general manager. It was Mr. Pei's vision and talent that drove technical improvements in the manufacturing process, changes in business practices and product portfolio. To a certain extent, he built a corporate culture of mutual trust and strong team spirit.

4.2.2.10 Case Study: Company H acquiring Company G

In 2003, an American pharmaceutical giant, Company H acquired a major European counterpart, Company G. Both companies had operations in China and therefore these Chinese subsidiaries needed to merge. The two pre-merger country managers agreed to be interviewed and shared their views on the integration process.

First, Mr. Gao, the departed country manager of Company G in China was interviewed in Taiwan where he assumed a new senior management position with a local pharmaceutical company. During his tenure, he had established Company G China a solid R&D functions on human drugs with the necessary GMP certifications for two plants in southern China. Internal SOPs (standard operating procedures) enabled the proper functioning of Finance, Human Resources, Administration and Legal departments. Also the sales/ marketing and distribution staff were all well-trained. In his opinion, Company G had no major weaknesses prior to merger. Local public relations were good while relationship with the Chinese Central Government was fairly good.
Since the announcement of the merger, Mr. Gao's title was changed to Co-Project Leader acting as a consultant to the succeeding Managing Director in all areas, particularly Human Resources. Mr. Gao described the merger process was smooth as easy because the acquiring company, Company H was well experienced and it also

provided clear corporate guidelines. The objectives of the merger in China was to gain a much bigger market share as the two companies could supplement each other in such strategic marketing/sales areas as oncology and arthritis drugs. Also, the merger would generate more financial leverage for the merged companies after realization of significant cost savings. The integration process was conducted at a good speed as there were no major issues internally. Antitrust laws in the US and Europe did require some divestitures and it took nine months for the deal to complete.

The post-merger integration process lasted two years with Mr. Gao staying for the first six months acting as Co-Project Leader. He then received a substantial severance package and departed. The takeover team from Company H had "played nice to ensure a smooth transition". The top line revenue of the combined companies in China was to exceed US$130 million and this target was determined by a detailed strategic analysis which also spelled out strategies for the US, European and Japanese markets. In China, the Human Resources and finance departments were given the task of planning and overseeing the integration process. The transition period was fixed at two years during which a world-class consulting firm was engaged to assist in carrying out the changes. Company H headquarters in the US continually issued corporate guidelines, policies and SOPs to ensure everything fell into place. Basically the combined company would follow Company H's organizational structure and Company G would have to conform. The final legal entities in China conformed to local Chinese laws. In terms of corporate vision, values, and beliefs, the combined company would fully adopt Company H's with Company G's vanished into the oblivion. According to Mr. Gao, Company G had a decentralized type of organizational culture whereas Company H centralized. Within two years after the merger, all formerly Company G's employees would receive salaries and benefits according to the acquirer, Company H's policies. The fringe benefits (in terms of stock options) of Company G's executive had effectively been reduced. Mr.

Gao considered that as a hidden agenda which cause upset and departure among many managers. Also he regarded additional experience was gained by going through the integration, but only few and minor new experiences.

Mr. Hart, a US expatriate Country Manager of the combined Company H granted an interview in Beijing in July 2004. He disclosed that before the acquisition, Company H China was growing profitably and doing relatively well against competition while Company G was struggling to become profitable. He noted that intellectual property rights were not fully enforced in China, and there were certain government imposed restrictions on the company's operations. However, the company had created a "winning spirit and can-do" culture and therefore a stronghold in the Chinese market. Via acquisition of Company G, he picked up two new therapeutic product areas, that is, oncology and ophthalmology and a larger operation nationwide with increased Sales/ Marketing and Finance responsibilities.

Reflecting on the integration process, he described it as sometimes difficult because it happened when SARS (Severe Acute Respiratory Syndrome) hit China in 2002. Ambiguity came from SARS when two employees got infected with the disease. Traveling domestically was to be minimized and communication was done via telephone and electronic systems. It was decided that all the manufacturing plants were to be kept, likewise were Company G's sales staffs. On the senior manager's level, Mr. Hart planned to select six to seven of the best from the combined pool to form a task force in charge of the integration process. During the process of identifying the best middle managers, the candidates who failed to qualify were given temporary positions and temporary assignments for a couple of senior mangers. It showed that "Company H did care for people". A decision would be made after a year as to assignment of permanent positions or severance from the company. The combined company

headquarter was to remain in Beijing where access to Central Government for lobbies would be more convenient. Staff departments were consolidated in Beijing with substantial employee relocation. In Mr. Hart's opinion, the integration process should "unwind" quickly, "the faster the better". The actual process had a "frustrating awkward start, then it moved quickly". The ultimate motive for the merger in China was to leverage the synergies by linking two areas, namely customers and products. It was to aim at "adding one to one to become larger than two". There was massive staff turnover during post-merger integration, keeping only 60% of people. "The new Company H has stabilized after the integration process was completed. The current staff turnover rate is less than 10".

Mr. Hart termed the acquired company's competitive advantage was in good, stable people and solid products. On a scale of one to ten, he gave it an 8. He also labeled Company G's essential knowledge as very much group embedded (score: 9), like "a meatball put together – culturally adaptive and good amalgamation". The pre-merger businesses of the two companies were quite compatible except the sales forces were run differently. It required significant efforts to integrate the two sales teams to follow one set of policies and procedures. Mr. Hart also stated that the pre-merger cultural difference between the two companies was minor; they were "more similar than different". However, he thought that Company H was a trifle more "performance-oriented with a higher level of aggressive intensity" This could be due to its having an American parent company. The degree of employee resistance in the integration process was varied: it was generally low but with pockets of high resistance. Company H did offer the same Management Incentive Plan (i.e. bonus) to Company G managers and it came as a pleasant surprise. This helped build morale to employees of the acquired company. On the newly acquired Oncology drug business, the new Company H decided to keep the existing Company G model. However, all other

functional/ departmental policies and procedures would follow that of Company H. Overall, Mr. Hart praised the effectiveness of the project team because significant value had been created in market share and organizational health-standing. "The new Company H has a consistent culture across the organization in China".

In summary, Mr. Hart elaborated that the strategic motives of addition of oncology drugs (a new therapeutic area) brought critical mass to the portfolio of products available in China. Such a motive had influenced subsequent strategies and implementation of post-merger integration process. Pre-planning of integration was done with the help of a well-known international consulting firm; as a result, the direction and process of integration were clear to everyone involved. The "game plan" was subsequently executed conscientiously. Specific emphasis was put on "managing the time-lines" from Company H's headquarters to the China Country Manager: that is, all the deadlines were to be met. Mr. Hart said that he never felt any pressure because "everything was on high gear and moving fast". The consultants developed the "play book and rule book" so that all standard reporting and processes were "structured and well-disciplined". Locally developed estimates were sent to the headquarters for review all crucial check-points. The outcome of integration was a successful one. "Today the management team consists of people from Company G at all levels". "The new Company H people now hold clear corporate vision, core values and strong beliefs, all of which are constantly sensitized and reinforced by the leaders in the company. The leaders' behaviors are also well understood, setting outstanding examples for the rest of the company". Mr. Hart stated that the acquisition was like a forced marriage and only the "Art of

M&A" could have made the integration successful. From a structural point of view, there was technical learning during the process, however, on the soft side of human issues, the real value of learning was harder to determine.

4.3 Problems Encountered and Critical Success Factors

To ensure continuous corporate success, all organizations worldwide have to meet constant challenges and make strategic decisions. Facing globalization, technological changes, regulation and deregulation, firms use mergers and acquisitions to increase economies of scope and scale, add core competence and seek revenue and cost synergies. However, research has shown that M&As are more risky than organic growth from within the organization. Swift and effective implementation of the chosen strategies and deals is the most critical step to ensuring success. In the case of mergers and acquisitions, pre-deal strategic planning and due diligence and post-deal task and people integration are most important for realization of synergies leading to significant shareholder value gains. This study has confirmed that similar problems are encountered in Chinese pharmaceutical companies during their mergers and acquisitions. However, there are special issues identified from the case studies of the pharmaceutical industry in China. Both typical and special post-merger integration issues are summarized below:

A. Typical issues from the M&A literature:

1. Operational – Inadequate pre-deal planning and due diligence; slow and ineffective implementation of task integration; and, post-merger drift of focus on day-to-day operations and performance.
2. Human – Cultural clash; people integration problems; leadership vacuum; and, poor communications.

B. Special issues identified from the case studies:

1. Unique Chinese context at economic reform and SOE privatization stage - substantial government influence over M&A deal approval, subsequent asset restructuring, and employee redundancy/ welfare decisions.

2. Lack of capable and trustworthy leadership with practical M&A learning experience to carry out post-deal short-term task integration and long-term cultural transformation.

With the help of statistics (Tables 4.1 – 4.6) generated from the survey questionnaire, the following is a discussion of the PMI situation in the Chinese pharmaceutical companies:

Table 4.1 Descriptive Statistics - All Respondents

VAR	N	RANGE	MIN	MAX	MEAN	S. D.	MEDIAN	MODE
Process	22	2	1	3	1.86	0.94	1.50	1
Capabilities	22	7	3	10	6.86	1.98	7.00	7
Experience	22	6	3	9	6.14	2.08	7.00	3*a*
Comp_Adv	22	7	2	9	4.95	2.40	5.00	3
Informal	22	6	2	8	4.95	2.44	5.00	8
Embedded	22	7	2	9	5.18	2.52	5.00	2
Compat	22	6	3	9	7.55	1.37	8.00	8
Rel_Size	22	8	1	9	5.18	2.70	6.50	3*a*
Culture	22	7	2	9	6.55	1.92	7.00	7*a*
Resistance	22	6	1	7	3.32	2.06	2.50	2
Environ	22	7	2	9	6.18	2.28	7.00	8
Func Int	22	7	2	9	5.05	2.55	4.50	2*a*
Org Struct	22	6	2	8	4.91	2.43	4.50	8
Dept Reorg	22	7	2	9	5.32	2.64	6.50	8
Mgmt Style	22	8	1	9	4.77	2.64	3.50	3
Staff Adj	22	6	2	8	4.36	2.30	3.50	2
Incent Adj	22	6	2	8	4.68	2.34	3.50	3
Polic Proc	22	7	2	9	4.50	2.18	4.00	3
Proj Team	22	6	3	9	6.73	1.52	7.00	7*a*
Value	22	7	2	9	7.00	2.05	8.00	8
Task	22	6	3	9	6.55	1.84	7.00	8
Human Int	22	6	3	9	6.55	1.82	7.00	7*a*

a. Multiple modes exist. The smallest value is shown

Table 4.2 Descriptive Statistics - Top Executives

VAR	N	RANGE	MIN	MAX	MEAN	S. D.	MEDIAN	MODE
Process	10	2	1	3	2.00	0.94	2.00	1*a*
Capabilities	10	7	3	10	6.80	2.35	7.50	8
Experience	10	6	3	9	5.70	2.41	5.00	3*a*
Comp_Adv	10	7	2	9	6.10	2.38	6.50	5*a*
Informal	10	6	2	8	5.70	2.41	6.00	8
Embedded	10	7	2	9	6.50	2.42	7.00	7
Compat	10	4	5	9	7.70	1.16	8.00	8
Rel_Size	10	7	2	9	6.10	2.51	7.00	8
Culture	10	6	3	9	6.50	1.78	7.00	7
Resistance	10	6	1	7	4.00	2.16	3.50	2*a*
Environ	10	7	2	9	5.70	2.79	6.50	2*a*
Func Int	10	7	2	9	5.90	2.33	6.50	7*a*
Org Struct	10	6	2	8	5.50	2.01	6.00	6
Dept Reorg	10	7	2	9	6.70	2.16	7.50	8
Mgmt Style	10	8	1	9	5.80	2.97	7.50	8
Staff Adj	10	6	2	8	5.00	2.31	4.50	3
Incent Adj	10	6	2	8	6.10	2.23	7.00	8
Polic Proc	10	7	2	9	5.60	2.41	6.50	7
Proj Team	10	6	3	9	6.80	1.75	7.00	7*a*
Value	10	6	3	9	7.10	2.08	8.00	8*a*
Task	10	6	3	9	6.40	2.12	7.00	8
Human Int	10	6	3	9	6.50	2.12	7.00	7*a*

a. Multiple modes exist. The smallest value is shown

Table 4.3 Descriptive Statistics - Functional Managers

VAR	N	RANGE	MIN	MAX	MEAN	S. D.	MEDIAN *a*	MODE
Process	12	2	1	3	1.75	0.97	1.63	1
Capabilities	12	7	3	10	6.92	1.73	6.88	7
Experience	12	5	3	8	6.50	1.78	7.00	7*b*
Comp_Adv	12	6	2	8	4.00	2.04	3.40	3
Informal	12	6	2	8	4.33	2.39	3.67	2
Embedded	12	6	2	8	4.08	2.11	3.67	2
Compat	12	6	3	9	7.42	1.56	7.67	8
Rel_Size	12	7	1	8	4.42	2.71	3.67	2*b*
Culture	12	7	2	9	6.58	2.11	7.14	8
Resistance	12	6	1	7	2.75	1.86	2.25	2
Environ	12	6	2	8	6.58	1.78	7.11	7
Func Int	12	6	2	8	4.33	2.61	3.25	2
Org Struct	12	6	2	8	4.42	2.71	3.25	2*b*
Dept Reorg	12	6	2	8	4.17	2.52	3.00	2*b*
Mgmt Style	12	6	2	8	3.92	2.07	3.29	3
Staff Adj	12	6	2	8	3.83	2.25	3.00	2
Incent Adj	12	5	2	7	3.50	1.73	3.00	3
Polic Proc	12	5	2	7	3.58	1.51	3.33	3
Proj Team	12	4	4	8	6.67	1.37	7.00	7*b*
Value	12	7	2	9	6.92	2.11	7.63	8
Task	12	5	3	8	6.67	1.67	7.13	8
Human Int	12	5	3	8	6.58	1.62	7.00	7*b*

a. Calculated from grouped data.

b. Multiple modes exist. The smallest value is shown

Table 4.4 Pearson Correlations – All Respondents

Pearson Correlations - All Respondents

	VALUE	TASK	HUMANINT	Capabilities	Experience	COMP ADV	INFORMAL	EMBEDDED	COMPAT	REL SIZE	CULTURE	Resistance	ENVIRON	FUNC INT	Org Struct	Dept Reorg	Mgmt Style	Staff Adj	Incent Adj	Polic Proc	Proj Team
VALUE	1	0.769	0.691	0.434	0.325	-0.029	-0.372	-0.268	-0.034	-0.353	-0.036	-0.566	-0.061	-0.182	-0.249	-0.088	-0.044	-0.263	-0.040	0.203	0.797
TASK	0.769	1	0.844	0.581	0.402	0.081	-0.418	-0.412	0.027	-0.355	-0.034	-0.588	-0.149	-0.056	-0.127	-0.203	-0.159	-0.206	0.042	0.190	0.719
HUMANINT	0.691	0.844	1	0.550	0.143	0.104	-0.466	-0.438	0.047	-0.302	0.170	-0.673	-0.071	-0.170	-0.118	-0.186	-0.191	-0.255	-0.024	0.096	0.833
Capabilities	0.434	0.581	0.550	1	0.305	0.319	-0.129	-0.147	-0.147	0.049	-0.030	-0.374	-0.163	0.020	-0.072	0.009	-0.052	0.064	0.370	0.248	0.572
Experience	0.325	0.402	0.143	0.305	1	0.087	-0.112	-0.251	0.006	-0.471	-0.354	-0.401	0.005	-0.127	-0.318	-0.060	-0.272	-0.230	-0.118	-0.058	0.209
COMP ADV	-0.029	0.081	0.104	0.319	0.087	1	0.545	0.553	-0.108	0.493	-0.542	0.061	-0.546	0.560	0.530	0.715	0.277	0.400	0.591	0.497	0.088
INFORMAL	-0.372	-0.418	-0.466	-0.129	-0.112	0.545	1	0.885	-0.063	0.558	-0.442	0.392	-0.093	0.436	0.297	0.623	0.280	0.623	0.432	0.256	-0.377
EMBEDDED	-0.268	-0.412	-0.438	-0.147	-0.251	0.553	0.885	1	0.108	0.583	-0.386	0.568	-0.047	0.628	0.493	0.799	0.437	0.761	0.528	0.478	-0.285
COMPAT	-0.034	0.027	0.047	-0.147	0.006	-0.108	-0.063	0.108	1	-0.260	0.334	0.121	0.561	0.224	0.173	0.226	0.089	0.251	-0.062	0.112	0.052
REL SIZE	-0.353	-0.355	-0.302	0.049	-0.471	0.493	0.558	0.583	-0.260	1	-0.075	0.452	-0.508	0.551	0.562	0.625	0.575	0.525	0.628	0.445	-0.243
CULTURE	-0.036	-0.034	0.170	-0.030	-0.354	-0.542	-0.442	-0.386	0.334	-0.075	1	-0.179	0.335	-0.248	-0.162	-0.298	0.063	-0.209	-0.256	-0.114	0.119
Resistance	-0.566	-0.588	-0.673	-0.374	-0.401	0.061	0.392	0.568	0.121	0.452	-0.179	1	0.129	0.469	0.435	0.366	0.251	0.589	0.498	0.293	-0.520
ENVIRON	-0.061	-0.149	-0.071	-0.163	0.005	-0.546	-0.093	-0.047	0.561	-0.508	0.335	0.129	1	-0.263	-0.332	-0.302	-0.484	0.059	-0.292	-0.345	0.056
FUNC INT	-0.182	-0.056	-0.170	0.020	-0.127	0.560	0.436	0.628	0.224	0.551	-0.248	0.469	-0.263	1	0.915	0.767	0.624	0.751	0.529	0.732	-0.206
Org Struct	-0.249	-0.127	-0.118	-0.072	-0.318	0.530	0.297	0.493	0.173	0.562	-0.162	0.435	-0.332	0.915	1	0.702	0.629	0.663	0.406	0.586	-0.227
Dept Reorg	-0.088	-0.203	-0.186	0.009	-0.060	0.715	0.623	0.799	0.226	0.625	-0.298	0.366	-0.302	0.767	0.702	1	0.646	0.661	0.549	0.658	-0.072
Mgmt Style	-0.044	-0.159	-0.191	-0.052	-0.272	0.277	0.280	0.437	0.089	0.575	0.063	0.251	-0.484	0.624	0.629	0.646	1	0.470	0.366	0.594	-0.207
Staff Adj	-0.263	-0.206	-0.255	0.064	-0.230	0.400	0.623	0.761	0.251	0.525	-0.209	0.589	0.059	0.751	0.663	0.661	0.470	1	0.616	0.457	-0.189
Incent Adj	-0.040	0.042	-0.024	0.370	-0.118	0.591	0.432	0.528	-0.062	0.628	-0.256	0.498	-0.292	0.529	0.406	0.549	0.366	0.616	1	0.622	0.176
Polic Proc	0.203	0.190	0.096	0.248	-0.058	0.497	0.256	0.478	0.112	0.445	-0.114	0.293	-0.345	0.732	0.586	0.658	0.594	0.457	0.622	1	0.173
Proj Team	0.797	0.719	0.833	0.572	0.209	0.088	-0.377	-0.285	0.052	-0.243	0.119	-0.520	0.056	-0.206	-0.227	-0.072	-0.207	-0.189	0.176	0.173	1

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Table 4.5 Pearson Correlations – Top Executives

Pearson Correlations - Top Executives

	VALUE	TASK	HUMANINT	Capabilities	Experience	COMP_ADV	INFORMAL	EMBEDDED	COMPAT	REL_SIZE	CULTURE	Resistance	ENVIRON	FUNC_INT	Org Struct	Dept Reorg	Mgmt Style	Staff Adj	Incent Adj	Polic Proc	Proj Team
VALUE	1	.898(**)	.743(*)	0.551	0.362	0.133	-0.526	-0.254	-0.032	-0.045	-0.135	-0.346	-0.205	0.415	0.332	0.23	0.04	0.185	0.261	0.496	.739(*)
TASK	.898(**)	1	.816(**)	0.621	.636(*)	0.212	-0.519	-0.413	0.145	-0.217	0	-0.583	-0.222	0.256	0.078	0.15	-0.074	-0.023	0.131	0.448	.683(*)
HUMANINT	.743(*)	.816(**)	1	0.58	0.316	0.341	-0.599	-0.531	-0.023	-0.135	0.191	-.776(**)	-0.235	-0.079	0.039	0.061	-0.282	-0.227	-0.012	0.152	.837(**)
Capabilities	0.551	0.621	0.58	1	0.48	0.541	-0.248	-0.098	0.098	0.192	0.027	-0.351	-0.095	0.301	0.141	0.468	-0.134	0.061	0.47	0.435	.719(*)
Experience	0.362	.636(*)	0.316	0.48	1	0.355	0.098	-0.086	0.362	-0.417	-0.247	-0.385	0.101	0.291	-0.195	0.152	-0.289	0.04	0.192	0.36	0.274
COMP_ADV	0.133	0.212	0.341	0.541	0.355	1	0.219	0.222	-0.109	0.295	-0.407	-0.281	-0.363	0.463	0.406	.719(*)	-0.028	0.101	0.542	0.589	0.539
INFORMAL	-0.526	-0.519	-0.599	-0.248	0.098	0.219	1	.851(**)	0.323	0.097	-0.558	0.428	0.399	0.172	-0.195	0.344	-0.118	0.48	0.316	-0.023	-0.28
EMBEDDED	-0.254	-0.413	-0.531	-0.098	-0.086	0.222	.851(**)	1	0.218	0.229	-.711(*)	.660(*)	0.338	0.405	0.103	0.542	0.031	.737(*)	0.505	0.229	-0.105
COMPAT	-0.032	0.145	-0.023	0.098	0.362	-0.109	0.323	0.218	1	-0.179	0.188	0.133	0.518	-0.136	-0.404	0.182	-0.116	0.498	0.313	-0.167	0.131
REL_SIZE	-0.045	-0.217	-0.135	0.192	-0.417	0.295	0.097	0.229	-0.179	1	0.087	0.143	-0.518	0.4	0.538	.640(*)	.701(*)	0.153	0.552	0.337	0.156
CULTURE	-0.135	0	0.191	0.027	-0.247	-0.407	-0.558	-.711(*)	0.188	0.087	1	-0.318	-0.056	-0.629	-0.295	-0.419	0.084	-0.487	-0.321	-0.543	-0.036
Resistance	-0.346	-0.583	-.776(**)	-0.351	-0.385	-0.281	0.428	.660(*)	0.133	0.143	-0.318	1	0.35	0.309	0.281	0.19	0.294	.668(*)	0.345	0.064	-0.441
ENVIRON	-0.205	-0.222	-0.235	-0.095	0.101	-0.363	0.399	0.338	0.518	-0.518	-0.056	0.35	1	-0.364	-0.563	-0.311	-.677(*)	0.397	-0.048	-0.581	-0.082
FUNC_INT	0.415	0.256	-0.079	0.301	0.291	0.463	0.172	0.405	-0.136	0.4	-0.629	0.309	-0.364	1	.769(**)	.743(*)	0.526	0.537	.749(*)	.901(**)	0.24
Org Struct	0.332	0.078	0.039	0.141	-0.195	0.406	-0.195	0.103	-0.404	0.538	-0.295	0.281	-0.563	.769(**)	1	0.599	0.631	0.334	0.605	.709(*)	0.284
Dept Reorg	0.23	0.15	0.061	0.468	0.152	.719(*)	0.344	0.542	0.182	.640(*)	-0.419	0.19	-0.311	.743(*)	0.599	1	0.439	0.601	.904(**)	.741(*)	0.481
Mgmt Style	0.04	-0.074	-0.282	-0.134	-0.289	-0.028	-0.118	0.031	-0.116	.701(*)	0.084	0.294	-.677(*)	0.526	0.631	0.439	1	0.146	0.371	0.514	-0.179
Staff Adj	0.185	-0.023	-0.227	0.061	0.04	0.101	0.48	.737(*)	0.498	0.153	-0.487	.668(*)	0.397	0.537	0.334	0.601	0.146	1	.754(*)	0.319	0.247
Incent Adj	0.261	0.131	-0.012	0.47	0.192	0.542	0.316	0.505	0.313	0.552	-0.321	0.345	-0.048	.749(*)	0.605	.904(**)	0.371	.754(*)	1	0.606	0.489
PolicProc	0.496	0.448	0.152	0.435	0.36	0.589	-0.023	0.229	-0.167	0.337	-0.543	0.064	-0.581	.901(**)	.709(*)	.741(*)	0.514	0.319	0.606	1	0.321
Proj Team	.739(*)	.683(*)	.837(**)	.719(*)	0.274	0.539	-0.28	-0.105	0.131	0.156	-0.036	-0.441	-0.082	0.24	0.284	0.481	-0.179	0.247	0.489	0.321	1

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 4.6 Pearson Correlations – Functional Managers

Pearson Correlations - Functional Managers

	VALUE	TASK	HUMANINT	Capabilities	Experience	COMP_ADV	INFORMAL	EMBEDDED	COMPAT	REL SIZE	CULTURE	Resistance	ENVIRON	FUNC_INT	Org Struct	Dept Reorg	Mgmt Style	Staff Adj	Incent Adj	Polic Proc	Proj Team
VALUE	1	0.663	0.654	0.322	0.326	-0.232	-0.301	-0.407	-0.044	-0.645	0.032	-0.861	0.135	-0.656	-0.629	-0.374	-0.190	-0.674	-0.436	-0.155	0.870
TASK	0.663	1	0.884	0.525	0.061	0.027	-0.312	-0.456	-0.046	-0.488	-0.069	-0.613	-0.081	-0.307	-0.268	-0.505	-0.246	-0.379	0.063	-0.060	0.781
HUMANINT	0.654	0.884	1	0.505	-0.110	-0.137	-0.360	-0.441	0.111	-0.494	0.157	-0.609	0.186	-0.265	-0.246	-0.449	-0.066	-0.295	-0.016	0.071	0.832
Capabilities	0.322	0.525	0.505	1	0.044	0.154	0.007	-0.222	-0.356	-0.069	-0.085	-0.430	-0.307	-0.235	-0.244	-0.393	0.100	0.090	0.470	0.055	0.371
Experience	0.326	0.061	-0.110	0.044	1	0.000	-0.235	-0.302	-0.244	-0.479	-0.495	-0.342	-0.272	-0.430	-0.385	-0.061	-0.111	-0.453	-0.294	-0.525	0.149
COMP_ADV	-0.232	0.027	-0.137	0.154	0.000	1	0.745	0.654	-0.227	0.525	-0.759	0.119	-0.774	0.529	0.574	0.583	0.366	0.553	0.359	0.030	-0.486
INFORMAL	-0.301	-0.312	-0.360	0.007	-0.235	0.745	1	0.933	-0.357	0.833	-0.385	0.245	-0.606	0.536	0.524	0.747	0.578	0.689	0.374	0.371	-0.546
EMBEDDED	-0.407	-0.456	-0.441	-0.222	-0.302	0.654	0.933	1	-0.039	0.772	-0.216	0.329	-0.353	0.723	0.709	0.905	0.711	0.770	0.162	0.470	-0.650
COMPAT	-0.044	-0.046	0.111	-0.356	-0.244	-0.227	-0.357	-0.039	1	-0.387	0.416	0.070	0.753	0.387	0.405	0.212	0.209	0.073	-0.520	0.312	-0.014
REL SIZE	-0.645	-0.488	-0.494	-0.069	-0.479	0.525	0.833	0.772	-0.387	1	-0.174	0.616	-0.469	0.570	0.530	0.522	0.348	0.743	0.610	0.403	-0.693
CULTURE	0.032	-0.069	0.157	-0.085	-0.495	-0.759	-0.385	-0.216	0.416	-0.174	1	-0.075	0.796	-0.022	-0.094	-0.277	0.075	-0.016	-0.286	0.341	0.262
Resistance	-0.861	-0.613	-0.609	-0.430	-0.342	0.119	0.245	0.329	0.070	0.616	-0.075	1	-0.007	0.505	0.490	0.320	-0.030	0.444	0.493	0.348	-0.711
ENVIRON	0.135	-0.081	0.186	-0.307	-0.272	-0.774	-0.606	-0.353	0.753	-0.469	0.796	-0.007	1	-0.065	-0.092	-0.186	-0.035	-0.246	-0.516	0.302	0.310
FUNC_INT	-0.656	-0.307	-0.265	-0.235	-0.430	0.529	0.536	0.723	0.387	0.570	-0.022	0.505	-0.065	1	0.995	0.739	0.665	0.879	0.181	0.526	-0.679
Org Struct	-0.629	-0.268	-0.246	-0.244	-0.385	0.574	0.524	0.709	0.405	0.530	-0.094	0.490	-0.092	0.995	1	0.748	0.640	0.847	0.164	0.492	-0.668
Dept Reorg	-0.374	-0.505	-0.449	-0.393	-0.061	0.583	0.747	0.905	0.212	0.522	-0.277	0.320	-0.186	0.739	0.748	1	0.755	0.664	-0.083	0.404	-0.641
Mgmt Style	-0.190	-0.246	-0.066	0.100	-0.111	0.366	0.578	0.711	0.209	0.348	0.075	-0.030	-0.035	0.665	0.640	0.755	1	0.760	-0.038	0.514	-0.332
Staff Adj	-0.674	-0.379	-0.295	0.090	-0.453	0.553	0.689	0.770	0.073	0.743	-0.016	0.444	-0.246	0.879	0.847	0.664	0.760	1	0.420	0.515	-0.698
Incent Adj	-0.436	0.063	-0.016	0.470	-0.294	0.359	0.374	0.162	-0.520	0.610	-0.286	0.493	-0.516	0.181	0.164	-0.083	-0.038	0.420	1	0.296	-0.230
Polic Proc	-0.155	-0.060	0.071	0.055	-0.525	0.030	0.371	0.470	0.312	0.403	0.341	0.348	0.302	0.526	0.492	0.404	0.514	0.515	0.296	1	-0.073
Proj Team	0.870	0.781	0.832	0.371	0.149	-0.486	-0.546	-0.650	-0.014	-0.693	0.262	-0.711	0.310	-0.679	-0.668	-0.641	-0.332	-0.698	-0.230	-0.073	1

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

Based on the descriptive statistics and Pearson Correlations (Tables 4.1 – 4.6) generated from the survey instrument, the merger process was considered to be 'sometimes difficult' or 'often a problem' by 60% (six) of the ten top executives. However, in the special context of Company P when the acquisition was close to merely a restructure of physical assets, most of the functional heads thought the process was smooth and easy. Taking all 22 respondents together, the merger process was 'sometimes difficult' on the average. The top executives also rated the acquiring company's planning and assessment capabilities as fairly good to good (mean score 6.8, median 7.5 and mode 8) while past organizational integration experience was only fair (mean 5.7, mean 5.0 and modes 3 & 5). Statistics from the functional heads group confirmed these phenomena with mean scores at 6.9 and 6.5 respectively. This shows that while the acquiring companies are quite good in planning the merger and assessing the target firms, due to their lack of prior organizational experience, the post-merger integration process is usually difficult and often a problem. This finding is in line with what happened with the Pharmacia-Upjohn merger and the Taiwan subsidiary mergers of the two major European pharmaceuticals in the late 1990s.

On the acquired companies' competitive advantages, the top executives believed that they were about average (mean 6.1 and median 6.5) while the functional heads gave lower scores (mean 4.0 and median 3.4) respectively. On tacit and group-embedded knowledge of the acquired firms, again the top executives rated them higher than the functional heads (mean 6.0 vs. 4.2 and median 7 vs. 3.7 respectively). This could mean that the top executives who held a broader perspective saw more value and had justification in acquiring the firms.

In terms of differences between the acquiring and acquired firms, since these are mostly horizontal and vertical mergers within the pharmaceutical industry, both top executives

and functional heads thought there was a high degree of business compatibility. The top executives also considered the relative size of the acquired firms was about 70% similar or 30% smaller than the acquiring firms. However, top executives and functional heads believed that cultural differences between the acquiring and acquired firms were fairly large (median scores at 7). This cultural clash could lead to post-merger integration problems. Environmental factors such as guanxi with the local governments and labor laws were considered having a fairly large impact on the integration process (mean score 7) by all the respondents. This is not surprising when the Chinese government uses administrative orders to push through privatization and enterprise reform.

During the post-merger integration process, employee resistance was seen to be quite low by the top executives (mean score 4) and even lower by the functional heads (mean score 2.75). With local government support, the acquiring companies usually managed to work through the Party officials in charge of the labor union within the acquired firms to resolve issues of labor contracts and employee layoffs. Also, it was probably due to the less confrontational Chinese culture as opposed to the Western culture which had caused the integration problems during the Pharmacia-Upjohn merger. For all of the mergers, project teams were used to integrate the functions and people to achieve the desired results. Both groups rated the effectiveness of the project teams as quite significant (mean, median and mode scores of 7). In some cases, world class consulting companies were engaged to facilitate the process. Management studies and information are readily available on multiple media these days that senior Chinese executives can learn from one another and even foreign merger and acquisition experience.

In most of the Chinese pharmaceutical mergers, functional or operational integration in customer, brand, manufacturing process, R&D, supplier, finance/ accounting systems took place in various degrees. Half of the top executives considered that it was quite

extensive (ratings at 7 to 9). Most looked for brand consolidation, synchronized marketing and sales practices, centralized purchasing, and a common finance/accounting system. This correlates almost perfectly with the score on outcome in task integration with six out of ten top executives rated above seven. It is interesting to note that there was more extensive departmental reorganization in terms of responsibilities, decision-making, and control than the change in departmental structure. Immediately after the merger, it was probably efficient and effective for the functional departments be given additional responsibilities and new control guidelines than a new organizational structure to adopt. Restructuring of the department could come at a later time after basic systems integration accomplished. Relating to departmental responsibilities, half of the top executives believed that changes in policies and procedures were quite extensive (ratings 7 to 9 with median score at 6.5).

On staff or human integration, in the eyes of top executives, post-merger staffing adjustment was relatively minor (median score 4.5), but more attention was given to performance incentive system alignment (median score 7). Management style, on the other hand, was subject to a higher degree of change with mean and median scores at 5.8 and 7.5 respectively. The outcome of human integration was seen as quite satisfactory as shown by mean and median scores of 6.4 and 7.0 respectively. Overall, the top executives regarded that high value creation was achieved for the merger with both mean and mode scores at 8.0. In general, the functional heads group has rated all the above four scores with mean scores for staffing adjustment at 3.8, incentive adjustment 3.5, management style change 3.9 and value creation at 6.9. It must be noted that half of the functional head respondents came from Company P and that particular case might have biased the findings. Hence, more emphasis should be placed on the findings from the top executive group where all of the eight firms were equally represented.

Correlation analyses were also conducted to establish association between the context, content, process and outcome variables. For the entire group of 22 respondents, acquirer's planning and assessment capabilities are strongly correlated with value creation, task and human integrations at 0.05 or 0.01 2-tailed confidence levels respectively. Low degrees of employee resistance and highly effective project teams contributed to successful value creation and task and human integrations as well as all correlations are significant at the 0.01 confidence levels. Planning and assessment capabilities also associate strongly with effectiveness of project teams. The presence of a project team for implementation of change and integration showed that top management had planned the merger well and made efforts to achieve the desired results. Acquirer's past organizational restructuring experience does not correlate with the outcomes of merger integration at all. It is probably due to the early stage of M&A development in China that most companies lack significant restructuring expertise that can only be learned and accumulated over time. Human integration has a significant negative relationship with the acquired firm's tacit and group-embedded knowledge. This can be explained that while such knowledge and expertise are competencies that the acquirer desires from the acquired company, it is more difficult to integrate the people (owners of such knowledge) than the formal and codified systems.

The acquired firm's competitive advantage is strongly associated with its tacit and group-embedded knowledge. This verifies that a firm's continuous success rely on using this type of knowledge to cope with the constant changes in the environment and stay viable. As the correlation statistics indicate, the higher the acquired firm's competitive advantage, the more extensive are the functional integration, organization structural change, and departmental decision-making and control adjustments. Moreover, acquired firm's competitive advantage also significantly relate to post-merger revisions in

departmental policies and procedures and performance incentive systems. It is also found that the acquired firm's competitive advantage correlates with lower cultural differences between the merged firms. Also, the acquired firm's essential group-embedded knowledge associates strongly with post-merger employee resistance and higher degree of performance incentive adjustment.

Addressing the similarities and differences between the acquiring and acquired firms, business compatibility only correlates significantly with impact of environmental factors. On the other hand, cultural differences correlate negatively with competitive advantage and tacit knowledge on significant levels. That means there was significant local government influence in matching pharmaceutical firms for M&As. An acquired firm with higher competitive advantage also happens to have less cultural differences from the acquirer. Less employee resistance was associated strongly with value creation, task and human integrations. Employee resistance is shown to correlate positively with functional integration, organization structure change, staffing and incentive adjustments, but negatively with project team effectiveness. Also there is a significant correlation between relative size similarity and employee resistance. This can be due to more staffing adjustments and even layoffs with the merger of equals.

On the content variables of post-merger integration, it is not surprising that the extensiveness of functional integration, organization structural change and reorganization in responsibilities, decision-making and control are strongly correlated among themselves. As functions and operations integrate, logically the organization structure, departmental responsibilities and control systems have to change. The extensiveness of changes in policies and procedures is found to have a very significant relationship with the departmental organization changes. These changes also accompany adjustments in staffing, performance incentive systems, policies and procedures, and

management style as the significant correlations indicate clearly. In addition, higher degree of management style change correlates with relative size similarity and extensive staffing adjustment.

On the human side of post-merger integration, staffing adjustment and performance incentive system adjustment seem to go hand in hand. These two adjustments relate significantly to organization integration extensiveness as well as the degree of tacit and embedded knowledge in the relatively similar sized acquired firms. Finally, the effectiveness of the project team associates very strongly with reduction in employee resistance, higher planning and assessment capabilities, and, more successful M&A outcomes.

In summary, 60% (6 out of 10) of top executives and nearly half (5 out of 12) of all respondents considered the merger process as at least sometimes difficult and often a problem. As China is a vast country, regional cultural differences compounding the differences in organizational cultures increased the difficulties in implementing functional and operational changes. In most cases, the acquiring companies tried to assimilate the acquired companies into the established corporate cultures. Very rarely did we encounter an acquiring company that was willing to develop a new corporate culture with the acquired firm. While there can be many motives for pursuing a merger or acquisition, Chinese pharmaceutical firms largely aim at increasing market share, expanding into new markets geographically, and achieving economies of scale and/or scope. These motives will have an influence over their integration content and process.

The critical success factors appear to be pre-deal planning and assessment capabilities and an effective project team that leads the integration process effectively minimizing employee resistance. These factors associate strongly with successful outcomes in

post-merger value creation, task and human integration. To a certain extent, detailed strategic analysis and action plans were developed for the prospective mergers. In many cases, the chief executives were actively involved in the strategic aspects of process while change managers were appointed to execute the integration programs. It seemed that most top executives followed a detailed strategic plan in implementing the integration or change programs and seldom would they need to change directions. As in the Pharmacia-Upjohn merger, marketing and sales integrations were emphasized so that revenue synergies could be realized at an early stage. Financed and accounting system integration was critical in providing accurate information for senior management's decision-making and formulating new strategic initiatives. In the short term, it was necessary to achieve the "quick/early wins" in sales and profit growth and accomplish the "must haves" in marketing, sales and finance/ accounting systems to ensure a single organizational model as in the Pharmacia-Upjohn case.

Certain degree of changes in organizational structures was evident when higher integration level was needed to realize the promised revenue and cost synergies. Firms generally revised their performance incentive system when staffing adjustments were carried out with an anticipated effect of reduced employee resistance. The ultimate organization culture change took place when new corporate values, beliefs and vision were formed in the combined company. That usually required a lengthy period of time and tremendous efforts on all levels of management. Over the long term, the new corporate vision would be fully realized to develop capabilities for continued growth. The majority of acquiring firms also learned from the existing acquisitions with an expectation that the accumulated learning and experience would be beneficial in future mergers and acquisitions.

Chapter Five – Conclusions

This chapter will provide a summary of research findings and conclusions drawn from the findings in this study. Following the introduction of the research problem and research design in Chapter One, Chapter Two proposed an integrative theoretical framework for investigating post-merger integration issues and solutions based on a comprehensive literature review in strategic management and organizational change. In Chapter Three, the research methods and research design for the study are discussed. In Chapter Five, two background cases are first presented as a basis for comparison for the eight subject mergers and acquisition cases in this research. Attempts are made to apply the integrative theoretical framework developed in Chapter Two to explain the context, content, process, and outcome at the merged companies. Statistical analyses of survey results are discussed to highlight integration problems and evaluate solutions to the post-merger integration phenomenon.

In this final chapter, the major objective is to draw conclusions to the investigation of post-merger integration at the eight pharmaceutical companies in China. Besides providing answers to the research questions and research problem, there will be a discussion of the implications for theory and practice. A section will be devoted to the discussion of the limitations of this study. Finally, the chapter will end with suggestions for future research studies in Chinese mergers and acquisitions.

5.1 Summary of Research Findings

5.1.1 Conclusions about Research Questions

In this subsection, research findings will be summarized by providing specific answers to the research questions raised in Chapter Two. Research results from the empirical investigations will be interwoven with the research on the subsidiary merger of two

European pharmaceuticals in Taiwan and the Pharmacia-Upjohn merger.

Research Question 1:

What are the specific issues, actions/solutions and outcomes in the post-merger integration of Marketing, Operations, Administration, Finance and R&D functions?

After the merger, the merged firm is under close scrutiny on its promises of synergy realization and delivery of value creation. The revenue and cost synergies can come from integration of Sales teams, Marketing and support functions as well as IT and Finance/ Accounting systems. PA Consulting Group (2004) considered that post-merger management of branding and marketing is crucial for M&A process. Also Accenture (2005) found that the supply chain has a major impact on M&A performance especially when it comes to costs.

As in the case of Pharmacia-Upjohn, putting resources behind sales and marketing initiatives could drive the desired sales and earnings growth. In the case of Company U, the Taiwan Country Manager increased incentives for the Sales team to achieve 'early wins' and boost morale. The key issue of integrating of marketing and sales functions rests in a fair selection of team leaders for the newly merged organization. With an improved performance incentive system in place, the sales and marketing teams would be more likely to deliver sound plans for execution and the top-line growth in new products and new markets. During post-merger integration, it is important that brands and customers are protected. In the case of Company U, based on a brand strategy, the top executives attempted to consolidate the strong brands into great brands that deliver value. For the longer term, brand transformation would require very high quality resources, leadership and direction to succeed.

Operational or supply chain competency is particularly important for Chinese

pharmaceutical mergers when the motive is to achieve high performance by expanding into new markets, consolidating excess capacity and optimizing distribution channels. During the post-merger integration process, it is critical that customer orders are not interrupted, operational expenses and capital expenditures contained, and inventory, distribution and accounts receivables efficiently managed. As in other functional department integrations, a supply chain functional integration team can ensure the transition go smoothly and deliver the promised synergies. In this empirical research, Dr. Jiang of Company D had hoped to use Supply Chain Management to improve the competitive advantages of the merged companies. He did not succeed because it was very difficult to get employees to follow departmental policies and standard operating procedures. He had failed to implement an ERP (Entrepreneurial Resource Planning) system due to resistance from his staff and employees at lower levels of the hierarchy. Perhaps if he could create a strong corporate culture of "caring and teamwork-oriented" to rid the employees of "passive attitudes" common to SOE workers, better results could be achieved.

Administration or Human Resource Management issues have to be effectively addressed in order for the M&A deal to be successful. Combining businesses often imply substantial staffing changes as employees change the way of working and even their own jobs. As most Chinese pharmaceutical merger deals focus on capturing brands and markets, potential synergies are likely to derive from consolidation of sales force and rationalization of back office functions. Hence, dealing effectively with people issues such as redundancy and staff transfers will be important. Most Western companies would have put together a HR integration plan ready for execution right after the deal is completed. The Chinese firms, on the other hand, are less well-prepared and most due diligence is done less thoroughly by outside consulting firms. The Human Resource department is often not involved until integration is about to take place so that

urgent issues (communications/ announcements and key staff changes) are handled less professionally. At this stage, functions are brought together rapidly to follow a new business model. It is vital to communicate with people and manage the effectiveness of the new processes. Chinese merged companies lack the vigor in engaging people in cultural integration which is necessary for forging a new corporate culture to deliver synergies and shareholder value. Despite cultural differences cited by many respondents as obstacles to improvement in productivity, no clear HR strategy was formulated prior to deal with issues. Leadership style was not emphasized either by HR as top executives' behaviors are rarely questioned in Chinese companies. It is argued that Chinese pharmaceutical M&A success can be enhanced if more attention can be paid to human resource issues and leadership/ management styles.

Financial/ Accounting and IT (Information Technology) systems integration is fundamental to merger success as the integrated systems provide information for the combined organization's daily working processes. Also, there can be cost synergies in rationalization and consolidation of staff, computer hardware and software during the integration. Almost invariably the acquiring company requires the acquired company to adopt its existing systems. For the purpose of securing tight control, the senior finance executive would be replaced in the acquired company to ensure integrity of the financial/ accounting systems. No serious problems were mentioned because such a practice was almost universal in all Western and Chinese merged companies.

As pharmaceutical research and development is relatively underdeveloped in China, recent M&As in the industry do not have acquisition of technology or intellectual property as motives. For the relatively small R&D functions, integration of two departments does not entail redundancy or staff lay-offs, although longer term departmental leadership and capability development are subject to change. To support

continued growth of the merged firm, R&D would also need to be transformed in terms of departmental objectives, culture, and resources.

As discussed above, post-merger operational/ functional integration is laden with issues and thus often problematic. Through carefully crafted strategic action plans emphasizing benefits/ shareholder realization and effective communications during the process, it is hoped that the integration project team can adequately resolve the people and culture issues so that new core competencies can be developed in the merged firm and achieve continued business growth and success. At an infant stage of M&A activities, Chinese companies have a lot to learn before mastering the skills for creating long-term value through the practice of mergers and acquisitions.

Attention now turns to **Research Question 2:**

What are the strategic management decisions and actions in pre-deal diligence (i.e. evaluation of combination potential and strategic fit), and post-merger integrating process (organizational integration and employee resistance) that can best explain merger success or failure?

Research findings of this study confirmed that the acquirer's pre-deal planning and assessment capabilities correlated strongly with merger outcomes in value creation, task and human integration. Both combination potential and strategic fit were emphasized by the acquiring firms in the due diligence process during the planning stage. Also, it has been shown that effective integration project teams managed to reduce employee resistance and facilitated the integration process to deliver desired results leading to merger success. The Pharmacia-Upjohn merger case illustrated how value destruction was brought by cultural clashes and lack of a clear strategic integration plan. However, under an effective leader, actions could be taken to overcome the operational and

systems problems and eventually lead to integration success. A key strategic decision in sales and marketing resulted in increased net income and profits. On the other hand, the Taiwan subsidiary merger of two European pharmaceuticals was successful due to the appointed Country Manager's sensitivity to people issues and his adoption of an 'early wins' strategy.

However, as M&As remain a key strategic tool for non-organic corporate growth, it is ultimately long-term value creation that is sought after. PA Consulting Group (2003) has argued that approaching deals purely on a 'good value' or 'good strategic fit' does not guarantee realization of value from the deal. Acquiring firm's core competencies might help deliver value from the deal or potentially hinder it. Thus, understanding the firm's own strengths and weaknesses would help assess accurately the risks and opportunities with a deal. More informed post-merger integration action programs can then be designed and implemented. Management literature has illustrated that a firm's core competencies can lie in its brands, services, product portfolio, supply chain, and customer base, etc. Moreover, the infrastructure and culture of a firm will support the core competencies and cause value to be created after the merger. This infrastructure or business platforms which consist of production processes, information systems and Human Resource policies and procedures will need to be adequately developed to accommodate integration with another company. In other words, an acquisitive firm will need to assess its core competencies, business platforms and corporate culture in the context of the proposed deal in order that a genuinely good deal with deliverable shareholder value can be consummated.

M&As are highly risky undertakings of a firm; therefore, controls in the form of strategic analysis, risk assessment and process management must be in place. A strategic analysis will identify viable target companies for M&A and potential benefits for the

acquiring firm. The scope of risk assessment should include such external business risks as changes in competition, technology and government regulations and internal financial and operational risks usually covered by due diligence. Emphasis should be placed on how these risks may impact the existing business and the post-merger integration process. Rigorous process management is required during all stages of the M&A. Prior to the deal, it is important to derive an understanding of value creation potential that drives integration strategy. During post-merger integration, the aim is to establish transition structures and controls, and effective leadership with structured program management. In the longer term of up to three years, it is an objective to realize value creation and accomplish organizational change under a new corporate vision.

PA Consulting Group (2004) also has suggested a modified approach to acquisition integration. Their best practice model is consisted of five processes: (1) Refine and communicate the integration strategy; (2) Design the integration program around shareholder value/ benefit models; (3) Deploy outstanding program management; (4) Address the people issues; and, (5) Manage the risks to the program. It has been found that apart from risk management, Chinese merged companies adopted the above best practices to various degrees. Project teams were put in charge of the integration programs and workshops and meetings were conducted in order to communicate integration strategies. It is felt that people and cultural issues were also carefully addressed with the objective of reducing employee resistance. Relatively simple integration programs were used and they were not sophisticated enough to provide assessment of risks and benefits. Improvements can be made in quantifying and tracking the business benefits, establishing contingency plans, and continuously monitoring the buy-in of the deal sponsors.

5.1.2 Conclusions about the Research Problem

With respect to the main research problem, ("What are the critical issues facing practitioners in post-merger integration involving Chinese pharmaceutical companies and what are the strategic management aspects that should be managed properly to ensure merger success and synergy realization?"), it is argued that this research has added new insights on the topic. Firstly, as in Western M&As, success is not guaranteed in corporate mergers in Chinese pharmaceutical industry. Many operational and human issues during the post-merger integration process cause non-delivery of the promised synergies and value creation for shareholders. Due to the vastly different context within which the mergers and acquisitions take place, there is not any hard and fast rule dictating what integration strategies will necessarily lead to merger success and synergy realization. Western post-merger integration methods have been learned and used by Chinese M&A practitioners with the hope of replicating best practices and achieving good performance. Pre-deal planning and assessment including due diligence and post-deal integration project team approaches help to secure 'early wins' and certain degree of success for the transition. Lack of risk assessment and management can explain the more problematic integration that Chinese firms than their Western counterparts have faced. Long-term transformation for continued business growth seems to require development of new corporate vision, mission and beliefs on which core competencies and expandable business platforms are built for sustained growth into the future.

Secondly, the background cases of the Pharmacia-Upjohn merger and the subsidiary merger of European pharmaceuticals in Taiwan demonstrate that major organizational changes including cultural changes can be more easily achieved than those sought in Chinese combined companies. Western corporate management philosophy and practices are to a great extent very new concepts for the Chinese executives and employees. As Dr. Jiang commented that "It is still the rule of man and not the law" in most recently

converted Chinese SOEs, it is still a huge challenge to import Western management systems and processes to modernize Chinese organizations. It will probably take more time and efforts to effect the cultural change in former SOE employees so that they become "caring and teamwork oriented" instead of staying "passive". It can be further argued that without the appropriate corporate culture in place, such management systems as Finance/Accounting, and Information Technology/ Systems would not be able to be integrated satisfactorily.

Finally, it is argued that mergers and acquisitions are a relatively new business phenomenon in China, there are very few native Chinese M&A practitioners who are well equipped in leading the merger process from pre-deal planning/ assessment, due diligence, transaction execution to post-deal integration and long-term transformation. As a result of poor communication and lack of contingency plans, resistance of disgruntled employees often hinders a smooth merger integration process. Certain labor disputes have resulted in violent confrontations with incoming management. Effective leadership is most crucial for implementing staffing changes and managing other human resource issues during transition. Leadership is even more critical in delivering long-term people and organizational changes including new way of doing business and cultural transformation for the merged company.

5.2 Implications for Theory

The theoretical implication of this study on post-merger integration in Chinese pharmaceutical companies may be found in several aspects. Firstly, the research has demonstrated the application of the integrative M&A model proposed by Larsson and Finklestein (1999), and the Armenakis and Bedeian (1999) model on organizational change to a "real life" context. It has been shown that while these models apply satisfactorily to mergers between subsidiaries of foreign companies in China, there are

some problems applying to the domestic Chinese merged firms. It is argued that different Chinese national, regional, social and corporate cultures from those of the West might have a significant impact on the content and process of post-merger integration.

Although post-merger integration within Chinese pharmaceutical industry is still a recent phenomenon, the findings of this exploratory study is still valuable in that it has provided theoretical implications for not only the area of the merger and acquisition process and integration but also corporate governance and management problems arising from privatization of state-owned enterprises. Company commitment and leadership have been shown as important factors in determining the process and outcome of organizational change. During the difficult period of transition and transformation, an able and trustworthy leadership with good relationship with the government will help to bring about good firm performance.

In sum, refinements to the existing conceptual M&A (Larsson & Finkelstein, 1999) and Organizational Change (Armenakis & Bedeian, 1999) models applicable to the China context can be made in the following ways:

1. Taking into consideration Chinese national, regional, social, and corporate cultural differences from their Western counterparts.
2. Adding the 'transitional economy' factor as evidenced by Chinese corporate governance and management problems during the economic reform process and SOE privatization.

5.3 Implications for Practice

Regarding the practical implications of the study for M&A practitioners in China, it is the unique Chinese context that should be stressed. Chinese mergers and acquisitions differ from Western counterparts due to China's current enterprise reform/ privatization

of SOE economic development stage. Chinese corporations are still subject to substantial government regulation and influence when it comes to approval of M&A deals. Without government consent granted on good guanxi, post-merger asset restructuring and employee contract revisions will become problematic. Although the trend is decreasing, Chinese corporations are still responsible for their employees' social welfare needs such as healthcare, housing and pension. What appear to be practical suggestions in the Western context may be much less applicable in the Chinese context.

On the basis of this empirical study, it is clear that Chinese M&A practitioners would need to manage the entire merger process more effectively, starting with pre-deal strategic analysis and risk assessment, and continuing with post-deal short-term transition programs and long-term transformation agenda. In addition, the long-term value creation objective of mergers and acquisitions can only be achieved when the acquiring firm owns M&A expertise derived from prior learning experience as well as the core competencies and business systems that help deliver value from the deal. Senior executives of the merged company also would need to bring about cultural change in order to form a new corporate vision for continued growth and success in the market.

5.4 Limitations of Study

The biggest limitation of the study probably came from the choice of data collection method. Due to constraints in time and funding, only two three-week trips were made to China for interviews with the eight pharmaceutical companies and research at the National Libraries in Beijing and Taipei. It needs to be recognized that richer qualitative materials may be gathered if more time can be spent at each of the participating companies. Also, gaining access to functional heads of the companies was difficult as most top executives thought that input was already comprehensive and sufficient.

Finally, due to the small number of respondents to the survey instrument, only the basic statistical analyses of frequencies and correlations could be used meaningfully to triangulate the qualitative research findings from interviews. With a significantly larger sample size, multiple regression and/or path analysis may be applied for more in-depth explanation of the M&A phenomenon in China.

5.5 Implications for Future Research

It is suggested that this essentially exploratory study has demonstrated the possibility of conducting case study research in Chinese companies after a merger or acquisition. As a rising transitional economy, China is an interesting target for organizational and management research. For many researchers, especially those from overseas, the biggest problem of doing research in China is often gaining access to the companies which still attempt to avoid unnecessary outsiders' attention and any negative publicity. Most recently, after China's WTO accession and further opening up of its market to foreigners, more companies become market-oriented and thus receptive to academic research on particular management issues or organizational phenomena.

Chinese corporate mergers and acquisitions have been on the increase as the companies need to consolidate and grow in size facing increased competition in the globalized economy. The recent takeover of IBM PC business by Lenovo is an example of Chinese firms doing M&As abroad. The issue of post-merger integration involving overseas companies of different national cultures should be of immense interest to both Chinese and Western researchers. In addition to case studies, positivist research may be conducted with large sample size in order to provide findings that can be generalized. Also, few other industries (e.g. oil and energy, fast moving consumer goods, electrical appliances, etc.) should be studied on their M&A issues and outcomes in China.

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Appendix I

Cover Letter & Information for the Interviewee in English and Chinese

Invitation Letter to Participate in Case Study

Dear Sir/Madam,

I am a doctoral (Doctor of Business Administration) candidate of the University of South Australia conducting a case study research on Post-Merger Integration (PMI) Issues and Critical Success Factors for merger success in the pharmaceutical industry in China. The study aims to understand why the PMI processes are vulnerable and identify the critical issues faced by practitioners in mergers involving Chinese companies. It also aims to understand the important strategic management factors that lead to synergy realization and mergers and acquisitions (M&A) success. It is hoped that this research will give more in-depth and substantive proposition to practitioners in Chinese mergers and acquisitions to achieve successful post-merger integration. Due to the sharp increase in M&A deals in China, the study will set a milestone and shed light for future studies that will benefit academics and practitioners alike. An information sheet on this research study is attached!

For this research, selected case studies will cover a small number of firms with a significant market presence in the pharmaceutical industry in China. The firms are medium or large-size firms in the industry that are willing to take part in the research. The real names of the firms and the officers will be disguised in order to protect confidentiality and ensure anonymity of the participants. Research will involve site visits and face to face interviews with senior management in firms, all of which can be completed within one day. These interviews will be semi-structured and audio tape recorded. Research participants will receive a copy of summary findings of the final report.

As your company has just gone through a merger process in China, your experience will certainly be invaluable to a study aimed at contributing to the knowledge of the post merger integration field. I would greatly appreciate your assistance in participating in this research study. If at any time during the interview that you choose to withdraw from the study, you may do so. If you are willing to participate in this study, please sign the consent form attached for yourself and have your participating functional heads signed theirs too. Any questions and comments are welcome! Looking forward to hearing from you soon!

Sincerely,

Edward M. Chung
DBA candidate
University of South Australia
Adelaide, S.A.
Australia

Information Sheet

University of South Australia
International Graduate School of Management

Post-Merger Integration Issues and Critical Success Factors: A Case Study of Pharmaceutical Industry in China

Edward M. Chung (MBA Finance, Stern School of Business, New York University)
Tel: (61) 8 8232 8028

The study aims to understand why the Post-Merger Integration processes in China are vulnerable and helps to identify the critical issues faced by practitioners in mergers involving Chinese companies. It also aims to understand the important strategic management factors that lead to synergy realization and the achievement of M&A success. It is hoped that this research will give more in-depth and substantive proposition to practitioners in Chinese M&A to achieve successful post-merger integration. Due to the recent sharp increase in M&A deals in China, the study will set a milestone and shed light for future studies that will benefit academics and practitioners alike.

For this research, selected case studies will cover a small number of firms with a significant market presence in the pharmaceutical industry in China. The firms are medium or large-size firms in the industry that are willing to take part in the research. Research will involve site visits and interviews with senior management (CEO and functional heads) in firms, all of which can be completed within one day at a company. *Participation in this study is strictly voluntary.* Interviews will be semi-structured and tape recorded and participants will be reminded of this before data is collected. **The identities of the firms and the officers will be masked** in order to protect confidentiality and anonymity of the participants. An advance copy of the interview protocol will be supplied two weeks before the on-site interview. At the end of the study, research participants will receive a copy of summary findings of the final report.

All information collected as part of the study will be retained and locked in a safe place for seven years. Apart from the researcher and his supervisors, no one will have access to the research data collected on tape. Also all records containing personal information will remain confidential and no information which could lead to identification of any individual will be released.

Due to the nature of this exploratory case study, there will be no risks to the participants

in this research. Also, it is highly improbable for any participants to suffer adverse events as a result of participating in the research. The possible benefits, however, are the opportunities in sharing knowledge of post-merger integration success factors in the pharmaceutical industry in the Chinese context. Moreover, participants may withdraw from the research at any time without affecting their position and well-being.

As your company has just gone through a merger process in China, your experience will certainly be invaluable to a study aimed at contributing to the knowledge of the post merger integration field. I would be most grateful if you would agree to participate in this study. Any questions and comments are welcome!

If you have any ethical concerns about the conduct of this research, please contact
Ms Becci Love, Executive Officer
Divisional Human Research Ethics Committee
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研究项目访问邀请函

本人为国立南澳大利亚大学企管博士候选人，对中国制药业并购整合问题及关键成功因素做个案研究。

本研究旨在了解中国企业并购后整合的各种困难，并厘清企业并购主管所面临的重要关键问题。本研究也试图了解达成并购成功及综效实现的重要战略管理因素。希望本研究结果可向中国并购主管或同业提供深入及有份量建议以达致并购整合的成功。因为中国并购案日益增加，希望本研究可建立一个里程碑，并引发其它此方面研究为学术界及业界提供参考。在此附上本研究资料页。

本研究对象为中国国内制药业若干市场规模较大的公司。范围为少数中大型企业自愿参与此项研究，公司及其主管名称身分将被隐藏以保障其私隐性及身分不被泄露。本研究将涉及现场访问企业执行长及其功能部门主管，并可于一天内完成。您参与本研究纯属自愿。访谈是半架构式及录音完成，被访者将获告知资料收集方式。本研究结束时，一份报告结果摘要将送至各参与者。

因贵公司曾在中国进行过并购，其经验应对本研究非常宝贵，可对并购整合领域知识提高有所贡献。希望获得您的支持，参与本研究项目。如果您在被访问过程中选择退出，您亦当然可以提出。如果您愿意参加本研究，请签署您的及部门主管的同意书。欢迎您提出任何问题及意见，希望早日获得您的回音。

钟文汉
国立南澳大利亚大学
企管博士候选人

资料页

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本研究对象为中国国内制药业若干市场规模较大的公司。范围为少数中大型企业自愿参与此项研究，将涉及现场访问企业执行长及其功能部门主管，并可于一天内完成。参与本研究纯属自愿。访谈是半架构式及录音完成，被访者将获告知资料收集方式。公司及其主管名称身分将被隐藏以保障其私隐性及身分不被泄露。访谈用的问卷将于现场访问二周前送至被访公司。本研究结束时，一份报告结果摘要将送至各参与者。

本研究收集的资料将被封存七年，除研究员及导师外，并无任何人可获悉其内容，所有个人资料纪录将保密，有关个人身分的任何录音资料将不会外泄。因为本研究属探讨性个案研究，对参与者应无风险，同时参与者也不会因参与研究而利益受损。参与者可望分享中国制药业并购整合成功因素的知识。又参与者可随时退出本研究而不受任何影响。

因贵公司曾在中国进行过并购，其经验应对本研究非常宝贵，可对并购整合领域知识提高有所贡献。最后希望贵公司同意参加本研究，并欢迎提出任何问题及意见。

如果您对本研究方式有任何问题，请联络
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Appendix II

Questionnaire & List of Questions to be asked in English and Chinese

Research Tools

A two-part instrument is to be used.

Part 1 is to be sent in advance. It includes factual questions and answers seeking information and some observations on whatever happened during the post-merger integration process. Researcher reserves the option of asking participants to clarify or expand their responses in subsequent face-to-face interviews.

Part 2 includes in-depth interview questions of the probing type for which relatively elaborate answers are required.

Part 1

Questions for senior executives of selected merged companies:

1a. What was your job title and what were your departmental functions before the merger?

1b. What in your view were the strengths and capabilities of your department before the merger?

1c. What were the weak points within the department prior to merger?

2a. Has your job title changed since the merger?
Yes/No

2b. Are you performing the same or different functions since the merger?
Same/Different

Please explain.

3. Reflecting on the merger process, how would you describe it?
   a. smooth and easy
   b. sometimes difficult
   c. often a problem
   d. any other way of describing the process?

   Please explain.

4. What was your role in the post merger integration process?

5. a. What were the objectives of post merger integration for your department or function? b. What strategies were employed to achieve these objectives.

6. In your opinion, do you think the integration process was carried out at a desirable speed?

7. On a scale of 1 (extremely low) to 10 (extremely high), how would you rate the following:

   Group 1: On integration content:

   a. The acquiring company's pre-merger planning and assessment capabilities.

   b. The acquiring company's past organizational integration (mergers and acquisitions, joint ventures, layoffs, restructuring, reorganization, etc.) experience.

   c. The acquired company's competitive advantage.

   d. The degree of the acquired company's stock of expertise that was unwritten or informal.

   e. The degree of the acquired company's essential knowledge that was group-embedded.

   f. The pre-merger business compatibility of the acquiring and acquired companies.

   g. The relative size (i.e. similarity in size) of the acquiring and acquired companies.

   h. The pre-merger cultural (national, and/or corporate) difference of the acquiring and acquired companies.

   i. The degree of employee resistance in the post merger integration process.

j. The degree of impact of environmental factors (laws, taxation, intellectual property rights, etc) on post merger integration.

k. The extensiveness of major functional/operational (e.g. customer, brand, manufacturing process, R&D, supplier, finance/accounting, etc.) integrations that were completed.

l. The extensiveness of change in your departmental organization structure.

m. The extensiveness of departmental reorganization in terms of responsibilities, decision-making, and control.

n. The degree of change in management style in your department after the merger.

o. The extensiveness of post-merger staffing adjustment.

p. The extensiveness of performance incentive system adjustment.

q. The extensiveness of change in functional/departmental policies and procedures.

r. The effectiveness of the project team for post-merger integration if applicable.

Group 2: On integration outcome:

s. Outcome of merger in terms of value creation.

t. Outcome of merger in terms of task integration.

u. Outcome of merger in terms of human integration.

Part 2A

Interview questions for Chief Executive of selected merged companies

10. What were the strategic motives for the merger? Have these motives influenced formulation of integration strategies and subsequent implementation of integration process?

11. Was it decided at the very start of the merger decision-making process what was needed to be integrated or changed in the company? Have you changed your direction since then and why?

12. What has been the main focus of change/integration to-date? What have been the main changes so far?

13. Was the post-merger integration based on detailed strategic analysis or on the experience of prior mergers and acquisitions of the company?

14. Which departments and managers have been given the task of planning for and overseeing the integration process?

15. Has there been any pressure, from outside or within, to push the change manager or project leader to adopt or forego some changes? If so, please elaborate.

16. Are there any changes in organizational structures and roles at the corporate level?

17. Are there any changes in corporate vision, values, and beliefs?

18. Do you think the post merger integration process you have gone through was a valuable target learning process for this particular merger? Also, in your opinion, how valuable is it as a learning and experience accumulation process for future deals?

Part 2B

Interview questions for Functional/Departmental Heads of selected companies

9. Since the merger/acquisition, has there been any change in the set-up and functions of your department? If so, please explain.

10. Since the merger/acquisition, what have been the goals or objectives of your department?

11. Have you been given new instructions in managing different functions under your jurisdiction?

12. Do you have new performance targets and measures such as value creation and synergies realized? Did you play a part in determining these targets?

13. Do you think that there is close link between changes taken at your level and upper levels and changes are made in alignment with overall company objectives?

14. What measures have you taken to overcome integration problems/hurdles? What are the outcomes?

15. Do you experience any change in your department post merger, for example, in the power structure, company vision, and in basic values and beliefs?

16. Do you think the company's competitive position in the market has changed as a result of the merger/acquisition? Please explain.

研究工具

第一部分 有关并购后整合过程资料

1a. 您在并购前之公司部门职务及职称? 贵部门并购前之功能?
1b. 并购前贵部门主要竞争优势和能力为何?
1c. 并购前贵部门弱点为何?
2a. 并购后您的职称有否更改? 有/否
2b. 并购后您是否担任相同或不同的职务? 相同/不同
请解释
3. 回顾并购过程，您认为它是
   a. 平顺及容易
   b. 有时困难
   c. 颇多困难
   d. 其它
   请解释
4. 您在并购后整合过程中的角色
5. a. 贵部门在整合过程中的目标
   b. 贵部门采用什么策略达成目标
6. 您认为整合过程进展是否合乎理想速度
7. 请以 1(极低/极小/极少)～10(极高/极大/极多)为比例评分下列各项：

壹 (整合内容)

   a. 买方并购规划及评估能力为何(高/低)
   b. 买方过去的组织整合经验(如并购、合资、裁员、改组、重整等牵动大规模组织及作业调整) 如何 (多/少)
   c. 卖方的竞争优势为何，及其强弱度为何? (强/弱)
   d. 卖方的关键知识的内隐性如何? (高/低)
   e. 卖方的关键知识的集体性如何? (高/低)
   f. 双方所处产业，其业务差异性大小为何? (大/小)
   g. 双方规模相同性大小? (大/小)
   h. 双方文化差异性大小? (大/小)
   i. 并购后整合过程中员工抗拒程度大小? (大/小)
   j. 环境因素(如法令、税务、智能财产权等)对并购整合的影响程度? (高/低)
   k. 并购后主要功能部门整合幅度大小? (大/小)
   l. 并购后贵部门组织结构调整度大小? (大/小)
   m. 并购后贵部门在分权、决策与控制上整合幅度大小? (大/小)
   n. 并购后贵部门在管理风格上整合幅度大小? (大/小)
   o. 并购后贵部门人事调整上整合幅度大小? (大/小)
   p. 并购后贵部门激励制度上整合幅度大小? (大/小)

q. 并购后贵部门政策与程序上整合幅度大小? (大/小)
r. 并购整合是否有项目团队及项目经理负责? 其对本案贡献有多大? (大/小)

贰、 整合结果(满意度)

s. 价值创造
t. 功能整合
u. 人员整合

第二部分

甲. 访问题目，对象为公司执行长

1. 并购的战略目标为何？这些目标对整合策略及后续整合过程实施有哪些影响?
2. 在并购决策开始时，是否已决定如何整合和调整合并公司？有否调整方向?又为什么要做调整?
3. 至今为止，整合及调整主要方面为何？有何重要调整?
4. 并购后调整是否根据深入的战略分析或以前并购经验?
5. 并购整合过程的规划及监督，是由什么部门及经理负责?
6. 有没有外部或内部压力令改革经理或项目领导采用或放弃某些调整？如果有，请加以解释。
7. 在企业高层是否有组织结构及角色上的调整?
8. 是否有企业愿景、价值及信念上的调整?
9. 您是否认为所经历的并购后整合过程是一次有价值的目标(项目)学习过程?又它是否对将来并购项目的学习与经验累积过程?

乙. 访问题目，对象为功能或部门主管

1. 并购后，贵部门在组织与功能上有否调整？请加以解释。
2. 并购后，贵部门的目标或目的为何?
3. 您有否收到新的指示去管理您的各项功能?
4. 对于价值创造及综效实现，您是否有新的绩效目标及衡量尺度？您有否参与制定这些目标?
5. 您认为上级及您的部门的各种调整是否紧密相关？又调整是否符合公司整体目标?
6. 您曾采用何种方法克服整合的难题？结果如何?
7. 并购后，您的部门在下列各方面的调整，例如：权力结构、公司愿景、基本价值及信念。
8. 您认为并购后公司在市场上的竞争地位有否改变？请解释。

Appendix III

Supplementary Questionnaire Survey Results

Frequency Table - All Respondents

Process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	11	50.0	50.0	50.0
	2	3	13.6	13.6	63.6
	3	8	36.4	36.4	100.0
	Total	22	100.0	100.0	

Capabilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	2	9.1	9.1	9.1
	4	2	9.1	9.1	18.2
	6	3	13.6	13.6	31.8
	7	7	31.8	31.8	63.6
	8	4	18.2	18.2	81.8
	9	2	9.1	9.1	90.9
	10	2	9.1	9.1	100.0
	Total	22	100.0	100.0	

Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	5	22.7	22.7	22.7
	5	3	13.6	13.6	36.4
	6	2	9.1	9.1	45.5
	7	5	22.7	22.7	68.2
	8	5	22.7	22.7	90.9
	9	2	9.1	9.1	100.0

	Total	22	100.0	100.0	

Comp_Adv

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	18.2	18.2	18.2
	3	5	22.7	22.7	40.9
	4	1	4.5	4.5	45.5
	5	3	13.6	13.6	59.1
	6	2	9.1	9.1	68.2
	7	3	13.6	13.6	81.8
	8	2	9.1	9.1	90.9
	9	2	9.1	9.1	100.0
	Total	22	100.0	100.0	

Informal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	22.7	22.7	22.7
	3	4	18.2	18.2	40.9
	4	1	4.5	4.5	45.5
	5	3	13.6	13.6	59.1
	6	1	4.5	4.5	63.6
	7	2	9.1	9.1	72.7
	8	6	27.3	27.3	100.0
	Total	22	100.0	100.0	

Embedded

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	22.7	22.7	22.7
	3	3	13.6	13.6	36.4
	4	1	4.5	4.5	40.9
	5	3	13.6	13.6	54.5
	6	1	4.5	4.5	59.1
	7	4	18.2	18.2	77.3
	8	3	13.6	13.6	90.9
	9	2	9.1	9.1	100.0

	Total	22	100.0	100.0	

Compat

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	4.5	4.5	4.5
	5	1	4.5	4.5	9.1
	7	6	27.3	27.3	36.4
	8	10	45.5	45.5	81.8
	9	4	18.2	18.2	100.0
	Total	22	100.0	100.0	

Rel_Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	4.5	4.5	4.5
	2	4	18.2	18.2	22.7
	3	5	22.7	22.7	45.5
	6	1	4.5	4.5	50.0
	7	5	22.7	22.7	72.7
	8	5	22.7	22.7	95.5
	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Culture

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	4.5	4.5	4.5
	3	2	9.1	9.1	13.6
	5	2	9.1	9.1	22.7
	6	3	13.6	13.6	36.4
	7	6	27.3	27.3	63.6
	8	6	27.3	27.3	90.9
	9	2	9.1	9.1	100.0

	Total	22	100.0	100.0	

Resistance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	3	13.6	13.6	13.6
	2	8	36.4	36.4	50.0
	3	4	18.2	18.2	68.2
	4	1	4.5	4.5	72.7
	5	1	4.5	4.5	77.3
	6	2	9.1	9.1	86.4
	7	3	13.6	13.6	100.0
	Total	22	100.0	100.0	

Environment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	18.2	18.2	18.2
	5	3	13.6	13.6	31.8
	6	1	4.5	4.5	36.4
	7	6	27.3	27.3	63.6
	8	7	31.8	31.8	95.5
	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Func_Int

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	22.7	22.7	22.7
	3	4	18.2	18.2	40.9
	4	2	9.1	9.1	50.0
	5	1	4.5	4.5	54.5
	6	1	4.5	4.5	59.1
	7	3	13.6	13.6	72.7
	8	5	22.7	22.7	95.5
	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Org Struct

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	22.7	22.7	22.7
	3	4	18.2	18.2	40.9
	4	2	9.1	9.1	50.0
	5	1	4.5	4.5	54.5
	6	3	13.6	13.6	68.2
	7	1	4.5	4.5	72.7
	8	6	27.3	27.3	100.0
	Total	22	100.0	100.0	

Dept Reorg

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	22.7	22.7	22.7
	3	4	18.2	18.2	40.9
	4	1	4.5	4.5	45.5
	6	1	4.5	4.5	50.0
	7	4	18.2	18.2	68.2
	8	6	27.3	27.3	95.5
	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Mgmt Style

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	4.5	4.5	4.5
	2	3	13.6	13.6	18.2
	3	7	31.8	31.8	50.0
	4	2	9.1	9.1	59.1
	5	1	4.5	4.5	63.6
	7	1	4.5	4.5	68.2
	8	6	27.3	27.3	95.5

	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Staff Adj

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	6	27.3	27.3	27.3
	3	5	22.7	22.7	50.0
	4	3	13.6	13.6	63.6
	5	1	4.5	4.5	68.2
	7	4	18.2	18.2	86.4
	8	3	13.6	13.6	100.0
	Total	22	100.0	100.0	

Incent Adj

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	18.2	18.2	18.2
	3	7	31.8	31.8	50.0
	4	1	4.5	4.5	54.5
	5	2	9.1	9.1	63.6
	7	4	18.2	18.2	81.8
	8	4	18.2	18.2	100.0
	Total	22	100.0	100.0	

Polic Proc

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	18.2	18.2	18.2
	3	6	27.3	27.3	45.5
	4	3	13.6	13.6	59.1
	5	2	9.1	9.1	68.2
	6	1	4.5	4.5	72.7
	7	4	18.2	18.2	90.9
	8	1	4.5	4.5	95.5

	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Proj Team

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	4.5	4.5	4.5
	4	1	4.5	4.5	9.1
	5	3	13.6	13.6	22.7
	6	2	9.1	9.1	31.8
	7	7	31.8	31.8	63.6
	8	7	31.8	31.8	95.5
	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Value

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	4.5	4.5	4.5
	3	1	4.5	4.5	9.1
	4	1	4.5	4.5	13.6
	5	3	13.6	13.6	27.3
	7	2	9.1	9.1	36.4
	8	10	45.5	45.5	81.8
	9	4	18.2	18.2	100.0
	Total	22	100.0	100.0	

Task

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	3	13.6	13.6	13.6
	4	1	4.5	4.5	18.2
	5	1	4.5	4.5	22.7
	6	3	13.6	13.6	36.4
	7	5	22.7	22.7	59.1

	8	8	36.4	36.4	95.5
	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Human Int

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	3	13.6	13.6	13.6
	4	1	4.5	4.5	18.2
	5	1	4.5	4.5	22.7
	6	2	9.1	9.1	31.8
	7	7	31.8	31.8	63.6
	8	7	31.8	31.8	95.5
	9	1	4.5	4.5	100.0
	Total	22	100.0	100.0	

Frequency Table – Top Executives

Process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	4	40.0	40.0	40.0
	2	2	20.0	20.0	60.0
	3	4	40.0	40.0	100.0
	Total	10	100.0	100.0	

Capabilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	10.0	10.0	10.0
	4	2	20.0	20.0	30.0
	7	2	20.0	20.0	50.0
	8	3	30.0	30.0	80.0
	9	1	10.0	10.0	90.0
	10	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	3	30.0	30.0	30.0
	5	3	30.0	30.0	60.0
	7	1	10.0	10.0	70.0
	8	1	10.0	10.0	80.0
	9	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Comp_Adv

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	1	10.0	10.0	20.0
	5	2	20.0	20.0	40.0
	6	1	10.0	10.0	50.0

	7	2	20.0	20.0	70.0
	8	1	10.0	10.0	80.0
	9	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Informal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	2	20.0	20.0	30.0
	5	2	20.0	20.0	50.0
	7	1	10.0	10.0	60.0
	8	4	40.0	40.0	100.0
	Total	10	100.0	100.0	

Embedded

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	1	10.0	10.0	20.0
	5	1	10.0	10.0	30.0
	7	3	30.0	30.0	60.0
	8	2	20.0	20.0	80.0
	9	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Compat

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5	1	10.0	10.0	10.0
	7	2	20.0	20.0	30.0
	8	5	50.0	50.0	80.0
	9	2	20.0	20.0	100.0

Total	10	100.0	100.0	

Rel_Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	2	20.0	20.0	30.0
	6	1	10.0	10.0	40.0
	7	2	20.0	20.0	60.0
	8	3	30.0	30.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Culture

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	10.0	10.0	10.0
	5	2	20.0	20.0	30.0
	6	1	10.0	10.0	40.0
	7	3	30.0	30.0	70.0
	8	2	20.0	20.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Resistance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	10.0	10.0	10.0
	2	2	20.0	20.0	30.0
	3	2	20.0	20.0	50.0
	4	1	10.0	10.0	60.0
	5	1	10.0	10.0	70.0
	6	1	10.0	10.0	80.0
	7	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Environ

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	30.0	30.0	30.0
	5	1	10.0	10.0	40.0
	6	1	10.0	10.0	50.0
	7	1	10.0	10.0	60.0
	8	3	30.0	30.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Func_Int

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	1	10.0	10.0	20.0
	4	1	10.0	10.0	30.0
	5	1	10.0	10.0	40.0
	6	1	10.0	10.0	50.0
	7	2	20.0	20.0	70.0
	8	2	20.0	20.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Org Struct

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	1	10.0	10.0	20.0
	4	1	10.0	10.0	30.0
	5	1	10.0	10.0	40.0
	6	3	30.0	30.0	70.0
	7	1	10.0	10.0	80.0
	8	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Dept Reorg

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	4	1	10.0	10.0	20.0
	6	1	10.0	10.0	30.0
	7	2	20.0	20.0	50.0
	8	4	40.0	40.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Mgmt Style

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	10.0	10.0	10.0
	2	1	10.0	10.0	20.0
	3	1	10.0	10.0	30.0
	4	1	10.0	10.0	40.0
	7	1	10.0	10.0	50.0
	8	4	40.0	40.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Staff Adj

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	3	30.0	30.0	40.0
	4	1	10.0	10.0	50.0
	5	1	10.0	10.0	60.0
	7	2	20.0	20.0	80.0
	8	2	20.0	20.0	100.0
	Total	10	100.0	100.0	

Incent Adj

		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	2	1	10.0	10.0	10.0
	3	1	10.0	10.0	20.0
	5	2	20.0	20.0	40.0
	7	2	20.0	20.0	60.0
	8	4	40.0	40.0	100.0
	Total	10	100.0	100.0	

Polic Proc

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	10.0	10.0	10.0
	3	2	20.0	20.0	30.0
	4	1	10.0	10.0	40.0
	6	1	10.0	10.0	50.0
	7	3	30.0	30.0	80.0
	8	1	10.0	10.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Proj Team

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	10.0	10.0	10.0
	5	1	10.0	10.0	20.0
	6	1	10.0	10.0	30.0
	7	3	30.0	30.0	60.0
	8	3	30.0	30.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Value

		Frequency	Percent	Valid	Cumulative

				Percent	Percent
Valid	3	1	10.0	10.0	10.0
	5	2	20.0	20.0	30.0
	7	1	10.0	10.0	40.0
	8	3	30.0	30.0	70.0
	9	3	30.0	30.0	100.0
	Total	10	100.0	100.0	

Task

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	2	20.0	20.0	20.0
	5	1	10.0	10.0	30.0
	6	1	10.0	10.0	40.0
	7	2	20.0	20.0	60.0
	8	3	30.0	30.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Human Int

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	2	20.0	20.0	20.0
	5	1	10.0	10.0	30.0
	7	3	30.0	30.0	60.0
	8	3	30.0	30.0	90.0
	9	1	10.0	10.0	100.0
	Total	10	100.0	100.0	

Frequency Table – Functional Managers

Process

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	7	58.3	58.3	58.3
	2	1	8.3	8.3	66.7
	3	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

Capabilities

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	8.3	8.3	8.3
	6	3	25.0	25.0	33.3
	7	5	41.7	41.7	75.0
	8	1	8.3	8.3	83.3
	9	1	8.3	8.3	91.7
	10	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	2	16.7	16.7	16.7
	6	2	16.7	16.7	33.3
	7	4	33.3	33.3	66.7
	8	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

Comp_Adv

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	25.0	25.0	25.0
	3	4	33.3	33.3	58.3
	4	1	8.3	8.3	66.7
	5	1	8.3	8.3	75.0
	6	1	8.3	8.3	83.3
	7	1	8.3	8.3	91.7
	8	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Informal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	33.3	33.3	33.3
	3	2	16.7	16.7	50.0
	4	1	8.3	8.3	58.3
	5	1	8.3	8.3	66.7
	6	1	8.3	8.3	75.0
	7	1	8.3	8.3	83.3
	8	2	16.7	16.7	100.0
	Total	12	100.0	100.0	

Embedded

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	33.3	33.3	33.3
	3	2	16.7	16.7	50.0
	4	1	8.3	8.3	58.3
	5	2	16.7	16.7	75.0
	6	1	8.3	8.3	83.3
	7	1	8.3	8.3	91.7
	8	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Compat

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	8.3	8.3	8.3
	7	4	33.3	33.3	41.7
	8	5	41.7	41.7	83.3
	9	2	16.7	16.7	100.0
	Total	12	100.0	100.0	

Rel_Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	8.3	8.3	8.3
	2	3	25.0	25.0	33.3
	3	3	25.0	25.0	58.3
	7	3	25.0	25.0	83.3
	8	2	16.7	16.7	100.0

	Total	12	100.0	100.0	

Culture

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	8.3	8.3	8.3
	3	1	8.3	8.3	16.7
	6	2	16.7	16.7	33.3
	7	3	25.0	25.0	58.3
	8	4	33.3	33.3	91.7
	9	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Resistance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	2	16.7	16.7	16.7
	2	6	50.0	50.0	66.7
	3	2	16.7	16.7	83.3
	6	1	8.3	8.3	91.7
	7	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Environ

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	8.3	8.3	8.3
	5	2	16.7	16.7	25.0
	7	5	41.7	41.7	66.7
	8	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

Func_Int

		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	2	4	33.3	33.3	33.3
	3	3	25.0	25.0	58.3
	4	1	8.3	8.3	66.7
	7	1	8.3	8.3	75.0
	8	3	25.0	25.0	100.0
	Total	12	100.0	100.0	

Org Struct

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	33.3	33.3	33.3
	3	3	25.0	25.0	58.3
	4	1	8.3	8.3	66.7
	8	4	33.3	33.3	100.0
	Total	12	100.0	100.0	

Dept Reorg

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	4	33.3	33.3	33.3
	3	4	33.3	33.3	66.7
	7	2	16.7	16.7	83.3
	8	2	16.7	16.7	100.0
	Total	12	100.0	100.0	

Mgmt Style

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	2	16.7	16.7	16.7
	3	6	50.0	50.0	66.7
	4	1	8.3	8.3	75.0
	5	1	8.3	8.3	83.3
	8	2	16.7	16.7	100.0
	Total	12	100.0	100.0	

Staff Adj

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	5	41.7	41.7	41.7
	3	2	16.7	16.7	58.3
	4	2	16.7	16.7	75.0
	7	2	16.7	16.7	91.7
	8	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Incent Adj

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	25.0	25.0	25.0
	3	6	50.0	50.0	75.0
	4	1	8.3	8.3	83.3
	7	2	16.7	16.7	100.0
	Total	12	100.0	100.0	

Polic Proc

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	3	25.0	25.0	25.0
	3	4	33.3	33.3	58.3
	4	2	16.7	16.7	75.0
	5	2	16.7	16.7	91.7
	7	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Proj Team

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4	1	8.3	8.3	8.3
	5	2	16.7	16.7	25.0
	6	1	8.3	8.3	33.3
	7	4	33.3	33.3	66.7
	8	4	33.3	33.3	100.0

	Total	12	100.0	100.0	

Value

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	8.3	8.3	8.3
	4	1	8.3	8.3	16.7
	5	1	8.3	8.3	25.0
	7	1	8.3	8.3	33.3
	8	7	58.3	58.3	91.7
	9	1	8.3	8.3	100.0
	Total	12	100.0	100.0	

Task

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	8.3	8.3	8.3
	4	1	8.3	8.3	16.7
	6	2	16.7	16.7	33.3
	7	3	25.0	25.0	58.3
	8	5	41.7	41.7	100.0
	Total	12	100.0	100.0	

Human Int

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	3	1	8.3	8.3	8.3
	4	1	8.3	8.3	16.7
	6	2	16.7	16.7	33.3
	7	4	33.3	33.3	66.7
	8	4	33.3	33.3	100.0
	Total	12	100.0	100.0	