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Cultural Integration of Cross-Border M&A Activities in the Chinese Auto Industry

Case Study: the Acquisition of Geely and Volvo

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Yhdessä kehittäminen ja strategian muutos Kiinan talouden, yhä useammat kiinalaiset yritykset yleensä aloittaa globalisaation kautta rajat ylittäviä sulautumisia ja yritysostoja. Kuitenkin valtava kulttuurierot aiheuttavat yleensä kulttuurisia ristiriitoja, jotka voivat olla suuria haasteita ja esteitä yrityksille, jotka haluavat kehittää ulkomailla. Niinpä sulautuman jälkeinen vaihe, se on merkittävä kiinalaisten yritysten kiinnitetä riittävästi huomiota kulttuurisen integraation parantamiseksi onnistumisprosentti rajat ylittävien yritysjärjestelyjen yhteydessä. Tämä opinnäytetyö esittelee nykytilannetta Kiinan autoteollisuuden ja analysoi heidän esitystensä jälkeen M & A toimintaa. Sitten kotoutunut kiina auto yritysten rajat ylittävien yritysjärjestelyjen yhteydessä on otettu käyttöön ja hankintaan välillä Geely Holding Group ja Volvo Car Corp. on tutkittu kohdeyrityksen tehdä lisätutkimuksia.

Teoreettinen osa työstä esittelee Hofstede 6D-mallin analysoida kansallisen kulttuurin ero Kiinan ja Ruotsin käyttää Scheinin teorian vertailua yhtiö kulttuuri ero Geely ja Volvon, ja soveltaa Berry, Nahavandi ja Malekzadeh mallit, jotta löydettäisiin oikea prosessi ja malli heidän kulttuurista yhdentymistä. Laadullinen tutkimusmenetelmä on valittu ja työntekijät Geely ja Volvon valitaan haastateltavat kun kerään yhtiö kulttuurierot molemmista yrityksistä. Tulos osoittaa, että kulttuurinen integraatioprosessi olisi sopiva, jos käytät "erottaminen malli" alussa vaiheessa ja sitten käyttämällä "integraatio malli".

Keywords: cross-border M&A activities, cultural integration, Chinese auto industry

ABSTRACT

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Along with the development and strategy change of Chinese economy, an increasing number of Chinese companies tend to start their globalization via cross-border mergers and acquisitions. However, the huge cultural differences usually cause cultural conflicts, which can be great challenges and obstacles to companies who are seeking to develop overseas. Thus, in the post-merger stage, it is significant for Chinese companies to pay enough attention to cultural integration in order to improve the success rate of cross-border M&A activities.

This thesis introduces the current situation of the Chinese auto industry and analyzes their performances after M&A activities. Then, cultural integration in the Chinese auto companies' cross-border M&A activities is introduced and the acquisition between Geely Holding Group and Volvo Car Corp is studied as case company to make further research.

The theoretical part of the thesis introduces Hofsted's 6D-model to analyze national culture difference between China and Sweden, uses Schein's theory to compare company culture difference between Geely and Volvo, and applies Berry, Nahavandi and Malekzadeh's models in order to find the proper process and model for their cultural integration.

A qualitative research method is chosen and employees from Geely and Volvo are selected as interviewees when I collect the company cultural differences from both companies.

The result illustrates that the cultural integration process would be suitable if using "separation model" at the beginning stage and then using "integration model".

Keywords: cross-border M&A activities, cultural integration, Chinese auto industry

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1 INTRODUCTION

1.1 Background

In the last ten years, Chinese companies have experienced a booming time in the overseas merger and acquisitions (M&A) market, although the global market crunched to a standstill. Chinese M&A activities reached record highs nearly every year in both the volume and the value of transactions in the items of almost all deal categories. However, it was reported that the rate of successful cross-border M&A to the total volume is only about 50%. Chinese companies have encountered frequent challenges. Cultural integration influences the final success greatly. (Fleuriet 2008, 223-224)

Nowadays, M&A have become an effective and efficient measure for companies to acquire resources, expand market, and strategy adjustment. As the mainland China becomes a new economic giant, more and more international companies are exploring the market in China and at the same time, many Chinese companies are going abroad and developing their global journey. Specifically, above half of these companies started their overseas operations by M&A, including Haier, Lenovo, and Shanghai Automotive Industry Corporation (SAIC). (CODA, 2009)

However, a large number of Chinese companies have completed their M&A but have not achieved their goals as expected; some of them even failed their business at the end. Reviewing the history of Chinese M&A, it becomes evident that Chinese companies are still at the initial stage of transnational M&A. As a report from China Overseas Development Association (CODA) states, only 40% of M&A activities succeed and the majority of the unsuccessful cases are caused by integration. Specifically, from targeted to trading, the success rate is about 70%; from delivery to integration, the success rate is 50%. Cultural integration is of great importance. (CODA, 2009)

Although Chinese companies have improved their capability when dealing with cross-border trade during the recent years, the capability for multicultural adjustment is still insufficient for M&A activities. It usually happens to Chinese

buyers that cultural integration is a more crucial and challenging task after they have completed the hard work of overseas M&A deal. This is because outbound investment is influenced not only by the integration of two different enterprise cultures but also by the issues of related legal norms or national differences from two countries. Hence, Chinese companies, aiming to achieve their final goal of M&As, need to pay enough attention to cultural integration and relieve cultural conflicts, so that they are able to make better use of resources from domestic and overseas operations.

1.2 Literature Review

1.2.1 Definition of Cross-Border M&A activities

Mergers and acquisitions (M&A) are “both aspects of strategic management, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture.” The definition of cross-border mergers and acquisitions is based on M&A and stands for M&A activities referring to multi countries or markets, and multi legal norms. Specifically, cross-border M&A illustrates that a company in one country acquires the total assets or sufficient shock for control rights from another company in a foreign country via some instrument of payment. (Wikipedia 2015)

1.2.2 Literature Review of M&A Activities

The researches about M&A activities began in the last century and boomed in the 1960s. The main researching areas are located at the motives of M&A activities and value created. In terms of the motivation of M&A activities, the presentative theories include the synergy, increased revenue or market share, cross-selling, economy of scale, taxation, geographical or other diversification, resource transfer, and vertical integration. Most of the recent researches about motivation theory tend to give assumptions and foundations and are going to be applied to all M&A activities, which could be unrealistic. The value created theory mainly focus on

these three following issues: whether M&A activities create value, which they create value for, and how they create value. The first two questions were popular in 1960s but the last one has become popular among scholars since the 1980s. (Giddy 2009)

Chinese companies started M&A activities from the 1990s and developed fast. The importance of M&A activities attracted more attention, but the theoretical researches are limited, whose main topic is about state-owned companies during the transformation period. Based on property transaction and equity transaction practical experience, Liu Wentong presented four theories: control efficiency theory, leverage hypothesis, SOEs prospective merger hypothesis, and hypothesis from prospective M&A mechanism to M&A mechanism (Liu 1997). Ling Fuquan described the general situation of Chinese companies' M&As and ownership re-constitution, and raised a standard that 'M&A activities are the priority of Chinese corporations to restructure asset' (Ling 1999). Shi Jiansan analysis the determining factors of direct investments (cross-border M&As and cross-border establishment), and set up the theory of combined influencing factors for M&As (Shi 1999). Wang Yi researched the situation for prospective M&As in Chinese SOEs and pointed out the defeats and conflicts between theory and practice in Chinese corporations (Wang 2000).

1.2.3 Literature Review of Cultural integration

The research of cultural integration is founded on the basements of Sociology, Cultural Anthropology, and Psychology, and is combined the cross-cultural integration from Management. One significant scholar is psychologist Prof. J.W.Berry, who mainly researches culture conflict among organizations and defines cultural integration as the process of contacts, conflicts, and adaptations that are caused from cultural factors' diffusion. The most significant achievement Berry completed is to classify cultural integration into four models: Cultural integration, Cultural assimilation, Cultural separation, and Cultural deculturation (Berry 1983). Afsaneh Nahavandi and Ali R. Malekzadeh applied Berry's four models into M&As integration theory. Although they used similar four-model, Nahavandi and Malekzadeh have a different view that they stand the views of the

acquired employees' willingness to keep their own culture and acquired company's attractiveness to acquired employees (Nahavandi & Malekzadeh 1988). In addition, according to the willingness of autonomy and dependent degree of two sides, Philippe Haspeslagh and David Jemison classified the process of cultural integration in M&As into four types: Preservation, Symbiosis, Holding, and Absorption (Haspeslagh & Jemison 1991, 233-350). Prof. Yaakov Weber used company culture difference and factors including acquired employee's cooperation willingness, organization commitment, and practical cooperation to make empirical analysis, and found the result that culture difference is negatively related to the above factors and unbeneficial to integration in domestic M&As. However, cultural difference is positive related to and benefit to integration in cross-border M&As. Therefore, Weber concluded that it is necessary to pay great attention to culture difference and build a proper communication system (Weber 1992).

1.3 Objective and Research Questions

Cross-border M&A activities refer to complicated process and huge risks. A report from PwC indicates that about 70% Chinese companies failed in cross-border M&A activities on a global scale McKinsey and Company made a similar survey to search the success rate of cross-border M&As, whose samples includes eight American companies, nine Japanese companies and eleven European companies. The result shows that only 57% companies get success in the post-merger integration. Prof. Bruce Wasserstein indicates that the success of M&As depends not only on the ability of acquired company, but also on the cultural integration on post-merger integration. According to the research from Bruce, it is only the first step for the acquirer company to acquire the owner right of Target Company and the main point of a cross-border M&A activity is cross-border integration, which influences the performance of a company directly. (PwC 2013, 2014; Wasserstein 2001)

Cross-border integration refers to a variety of issues, which could include the integration of human resource management, corporate finance, and culture. The objective of this thesis is to explore the current situation and process for cultural

integration in Chinese auto companies' cross-border M&As. The research question is what the proper model and process for the case companies of Geely and Volvo are in achieving cultural integration. The thesis, which uses the case companies, aims to benefit the cultural integration of Chinese auto companies who having cross-border mergers and acquisitions.

1.4 Structure and Development of the Thesis

The research of the thesis is based on a case, the acquisition between Geely Holding Group and Volvo Car Corp., to analyze the cultural integration for cross-border M&A activities in the Chinese auto industry.

The first chapter is an introduction in order to describe the brief background of overseas cultural integration for the Chinese automobile industry.

The second chapter gives the definition of cross-border M&A activities, illustrates the current situation of the Chinese auto industry, the influences that M&A activities could bring, and the obstacles M&A activities may confront. Then, the case of Geely and Volvo is introduced.

The third chapter is a theoretical study and the theories will be applied in the later chapters.

Chapters from fourth to sixth describe the research process and results. To be more specific, a qualitative method is used to make research. Firstly, a SWOT analysis is made to study the acquisition. Then, information about the cultural differences is collected between two companies, which are mainly from interviews with employees at Geely and Volvo. Work is done to analyze the cultural differences in both national and company level, and, by combining theories discussed in the above chapters, the aim is to explore a propel mode for this cultural integration.

Lastly, in Chapter Sixth conclusions and assessments are made about the research, and also the possible defeats of the thesis are presented.

2 CHINESE AUTO INDUSTRY

2.1 Current Situation of the Chinese Auto Industry

Generally, the micro economic situation in China is positive and there is great potentiality in the Chinese auto industry. Chinese economy has developed sharply in the recent ten years, which brings along with the increasing demand for bulk commodity. Also, the “attract business” policy promotes more overseas investment and selling in China.

2.1.1 Biggest Production and Sales Volume Globally

The Chinese auto market performed excellently after the financial crisis in 2008. In 2009, the total volumes of new automobiles production and sales in the Chinese market are 13791 thousand units and 13645 thousand units, which have overcome the numbers in the US for the first time. In 2011, the production and sales volume increased to 18419 thousand units and 1851 thousand units relatively, with increased rates of 0.84% and 2.45%, which renews the world record. Undeniably, China has become one of the most popular markets in the world and one of main strategy focuses for automobile companies. (China’s Ministry of Industry 2012)

In addition, one of Chinese most significant policy addresses is that the auto industry should put more effort into improving their research capability in order to achieve independent technology rather than rely on importing, and develop the technologies of energy-saving, eco-friendliness and safety. This policy has built a strong foundation for the Chinese auto companies to expand and develop their operations. (China’s State Council, 2010)

2.1.2 Trend for Globalization

Chinese market plays an increasing important role in the global market. Meanwhile, the Chinese auto companies are putting great value on overseas market and many companies build joint ventures and R&D centers globally, or

carry out M&A activities. In Table 1 the mainly cross-border M&A activities that Chinese companies are involved in are listed.

| Mainly Cross-border M&A Activities | | | |
|---|------------------|---------------------------------|---|
| Acquirer Company | Acquisition Time | Acquiring Target | Event |
| Shanghai Automotive Industry Corporation (SAIC) | 2004 | Rover Company (Britain) | SAIC took 67 million GBP to acquire part of intellectual property of key technology, including Rover 25, Rover 75, and engines for whole series. |
| Shanghai Automotive Industry Corporation (SAIC) | 2004 | SsangYong Motor Company (Korea) | SsangYong is the 4th largest automobile manufacturer in Korea; SAIC took a 51% stake of SsangYong by about 100 billion US dollars. |
| Nanjing Auto Corporation | 2005 | Rover Company (Britain) | NAC made an agreement with PwC, the holder of Rover after its bankrupt, that acquiring all engine plants, assemble plants, and supplier chain as whole-company buyouts. |
| Geely Holding Group | 2010 | Volvo Group (Sweden) | Geely took 1800 billion US dollars to acquire 100% of Volvo. |
| Beijing Pacific Century Automotive Systems Co., | 2010 | Nexteer of General Motors (US) | Nexteer manufactured steering system and drive line system for GM. BPCAS took 4400 billion US |

| | | | |
|------|--|--|-------------------------------------|
| Ltd. | | | dollars to acquire Nexteer from GM. |
|------|--|--|-------------------------------------|

Table 1.Mainly Chinese companies' cross-border M&A cases

2.2 Influences on Auto Industry

There are five great waves for mergers and acquisitions (M&A activities) in the US history since 1820, which have been the research cases for companies. Along with the globalization and informationization trends, cross-border M&A activities play an increasing role in global economy and attract great attention in the world. Many Chinese companies also take part in this trend, especially companies in the automobile industry. (Lamoreaux 1985)

Tracing back to the history of vehicle, auto industry originated from the developed countries but expanded to the developing countries. Since China joined the WTO, overseas M&A activities have become popular and have impact on the Chinese auto industry in many ways. Below, the following areas that cross-border M&A activities could affect are studied. (Schiffer 2004)

2.2.1 Influence on Management Level

A common challenge most the Chinese automobile companies confront now is the lack of high quality managerial and administrative personnel. However, it is impossible for them to cultivate sufficient experienced talents in a short time. As human resources affect managerial level greatly, Chinese companies could acquire advanced business ideas and managerial resources to improve their management and marketing level via overseas M&A activities. (Wang & Hong 2009)

2.2.2 Influence on Technology

Vehicle research and develop requires huge funding and a comparatively long time to gain results, which means a high cost for companies. Therefore, cross-border M&A activities are popular in Chinese companies that want to introduce developed technologies and also attain mature vehicle models—all these factors

benefit acquirer companies to improve technological capability, strengthen competitively, and promote the speed of upgrade. (Chen-Chen, Pei-Lee, Keng-Boon, & Kim-Lan 2009)

2.2.3 Influence on International Competitive Force

Compared with fabrics, clothing, and suit cases, automobile and related productions export a low volume with a small market share. M&A activities resolve many problems export usually meets, such as tariff, legal norms, or other trade barriers. It not only facilitates a company's internationalization, but also provides more employment opportunities for the local people. (China's foreign trade and investment 2005)

Based on this analysis, M&A activities benefit Chinese vehicle companies in various ways.

2.3 Obstacles of Cross-Border M&A

Besides the benefits cross-border M&As could bring, obstacles and challenges that may be confronted should not be ignored either.

2.3.1 Legal Norms and policies

Policy related resistance is a high frequency obstacle that Chinese companies face when carrying out cross-border M&A activities and national security is the most frequent one. The bid to Unocal from CNOOC (China National Offshore Oil Corporation) was rejected in 2005 for this reason. In 2011, Huawei was going to acquire 3Leaf Systems Inc. but five congress representatives mailed to Obama administration to decline this acquisition in the name of national security. (Wang 2012; Yi & Lin 2014)

In addition, Shanghai Automotive Industry Corp (SAIC) failed its acquisition with SsangYong because of the intervention from the labor union. TCL Corporation lost a great sum of money due to the lack of firing related legal norms when it had a M&A with Thomson Corporation in France. (Li 2010)

2.3.2 Financial Challenges

Cross-border M&A activities require a large scale of funds, which means companies usually need financial support from a financial institution. However, the current financial system in China limits not only the sum of loans but also limits the foreign exchange quota. Commercial banks or financial institutions are usually unable to provide convenient and flexible service to companies, especially to private entrepreneurs. Some companies that have the capability to go public overseas or have cross-border M&A activities may still miss the opportunity due to the limit. (Guo 2011; Company Caixin 2013)

2.3.3 Integration Experience

Acquiring companies could be beneficial for expanding market share, improve popularity, and having scale effect and so on. However, only accumulating the plants, technology, equipment or other tangible assets is not enough to gaining a long term profits. One key issue to attain final goals is to integrate the intangible assets from both companies and complete cultural integration. (Rhodes 2014)

In cross-border M&A activities, as companies from various countries and with different cultures, there are unavoidable cultural differences and conflicts between companies, especially at the post-merger stage referring to management and administration pattern. A noted “law of seven-seven” describes that 70% of the M&A activities failed to reach the expected goal and 70% of those failures are caused from unsuccessful cultural integration on post-merger stage. (Marino 2015)

Based on this fact, companies need to pay much attention to cultural integration when having overseas M&A activities if they want to attain the goal of 1+1>2. Companies should consider how to achieve cultural integration or how to build a new culture and values that can be stable and recognized by both the acquiring and the acquired parties. This is also what the thesis wants to research and explore. (Rhodes 2014)

2.4 Introduction to Case: Geely and Volvo

2.4.1 Geely Holding Group

Geely Holding Group, a large scale private enterprise, which announced its set up in 1986, mainly sells automobiles and auto parts. The working system inside of this company was flexible and it encouraged innovations. Based on these advantages, Geely expanded its market into cars in 1997 and was rewarded “the best and fast developing company in China”. Owning over \$20 billion in total assets, production ability of 60 thousand cars, 60 thousand transmissions and 60 thousand engines, the business scale of Geely is now on 331 of Top Chinese 500 Enterprises. (Geely Holding Group 2014; Geely Global Network 2014)

In the domestic car market, Geely already established nearly 600 service centers and 500 4S stores in order to have a perfect marketing network system. In addition to this, Geely has been the first in the Chinese market to own a Management System of after-sales service and ERP. In the overseas market, Geely sold over 200 thousand units, ranking as the top one of exporter in the Chinese auto industry. Especially in Ukraine Geely established factories in order to assemble and sell SKD/CKD. (Geely Global Network, 2014)

2.4.2 Volvo Car Corporation

Volvo Car Corporation, an automobile manufacturer, was founded in Sweden in 1927 and it used to be one subsidiary company of Ford Motor Company. Locating its headquarters in Gothenburg and production plants in Sweden and Belgium, Volvo, which has sales and service centers in over 100 countries as well as 2400 sales outlets, and 24000 staff, has been one of the biggest companies in the Nordic countries and one of the Top 20 car companies in the world. (Volvo Car Corp. 2014)

In order to entering the upscale market in Europe, Ford Motor Company acquired Volvo in 1999 but failed to achieve its goal and lose money every year. The Financial Crisis in 2008 was absolutely a disaster for Ford and the sales volume of Volvo decreased by 18.3% (2008) and 10.6% (2009) from 458 323 cars in 2007.

Also, the bad performance of Volvo took negative influence on the financial position of Ford. Based on this situation, Ford sold Volvo as a NPA (non-performing asset) to Geely. On 28th March 2010, Geely announced that it had signed with Volvo and acquired Volvo at the price of \$60 billion to have 100% stock equity as well as the related assets (including the intellectual property) of Volvo. The M&A activity between Geely and Volvo is the biggest deal in the Chinese auto history until now. (Wang 2015; Company Caixin 2013; Volvo Car Corp. 2015)

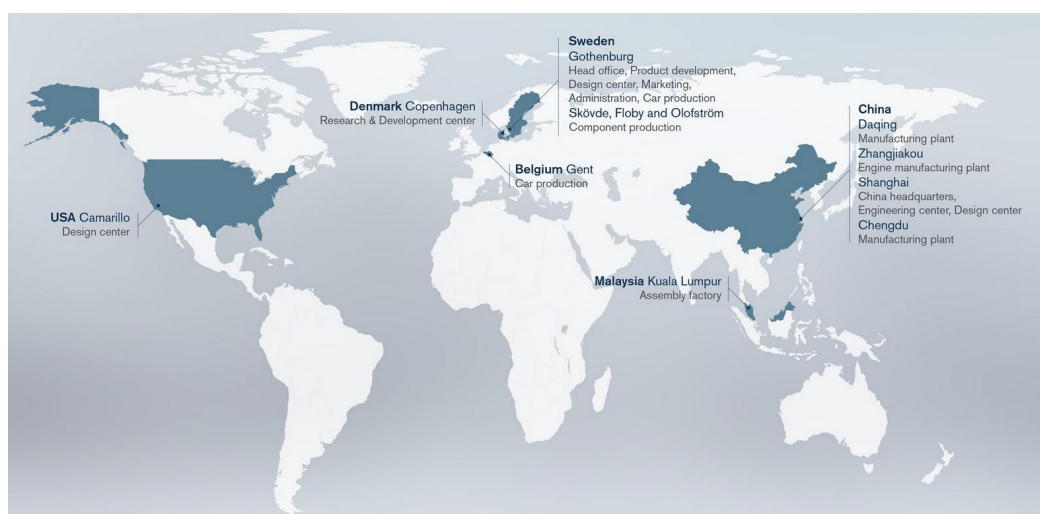


Chart 1. Volvo's World (Our World, 2014)

The process of the acquisition of Geely and Volvo is listed in Table 2.

| Time | Event |
|------|---|
| 2008 | Li Shufu organized Freshfields Bruckhaus Deringer, Deloitte Touche Tohmatsu, and LCF Rothschild Group to begin the M&A preparation. In the end of 2008, Geely presented the Bid Proposal to Ford. |
| 2009 | On January, Li Shufu with his team came to US and discussed with the chairman of board, CEO, and CFO from Ford. Later, Ford invited Geely to begin the process of M&A. |
| | On March 12nd, Geely submitted the first tender to Ford according to international conventions. |

| | |
|------|---|
| | Geely IPO took four months for the due diligence which began on April. |
| | On July 30 th , Geely submitted the legally binding second tender to Ford. |
| | October 28 th , Ford announced officially Geely as the preferred buyer of Volvo. |
| | December 14 th , Chinese Commerce Department published the agreement of this M&A. |
| | December 23 rd , Ford and Volvo made an agreement of this M&A. |
| 2010 | March 28, Geely and Volvo assigned the final Share Purchase Agreement. |
| | August 2 nd , Geely hold the delivery ceremony of Volvo from Ford in London and Geely acquired Volvo with 100% stock equity at \$30 billion. |

Table 2.The Process of Geely Acquired Volvo (Baidu Baike, 2015)

3 METHODOLOGY

3.1 Research Methods Introduction

Quantitative and qualitative are two research methods for gathering data.

Quantitative research involves collecting and analyzing objective data, including numerical data, thus quantitative method includes true experiments and the less rigorous experiments. Specifically, quantitative method requires information sources from large number of respondent and can involve complex experiments with many variables and treatments. Quantitative method is usually chosen to get a wider perspective area and usually uses strategies of inquiry such as experiments and surveys. (Caswell 2014, 4)

Qualitative method is usually used to gain deep opinions of certain situation and refers to strategies such as ethnographies, grounded theory, case studies, phenomenological research, and narrative research. The number of respondents in qualitative research can be small when compared to that in quantitative one, aim of qualitative research is to gather deeper knowledge rather. Qualitative methods concentrate on the perceptions of people involved, so qualitative research methods are usually taken by interviews, document, site visits, focus groups, and observations (Caswell 2014, 4).

3.2 Method in this Research

This research collects data by qualitative method, two interviews with employees from Geely and Volvo. Qualitative method was chosen for the reasons that in-depth interviews could offer in-depth answers of the current cultural integration situation in case companies and qualitative method can provide the flexibility to pursue issues, reasons, developments, concerns that are discovered during interviews. In addition, statistical representativeness of this research is not a necessity. The procedures of this research follow the sequence: design open-ended questions, collect interview data, and then analyze dialogue.

3.3 Reliability and Validity

Reliability concerns the degree to the ability of research instruments to generate consistent findings and the ability of research design to give the same answers if the research is carried out in different time or at different place. In a qualitative research, good reliability means that similar observations will be made by other researchers on different situations. (Ryu 2012; Miller & Yang 2007)

Generally, validity is the extent of accuracy of responses to a finding. In qualitative research, validity illustrates the extent of how an observation or finding is measured to have been reanalyzed in a true way. There are internal validity and external validity, which refers relatively to the extent of making casual statements about the research finding and the extent of generalizing results to people outside of the research. The factors that can affect internal validity include testing effects, maturation effects, history effects, and mortality effects. In qualitative research, good validity means the researcher gained full access to the knowledge meanings (Ryu 2012; Chen, Donaldson & Mark 2011).

4 THEORETICAL BACKGROUND

In this chapter, theories which will be used to analyze the case with details are introduced. The developing structure and function of empirical study are displayed in Figure 1.

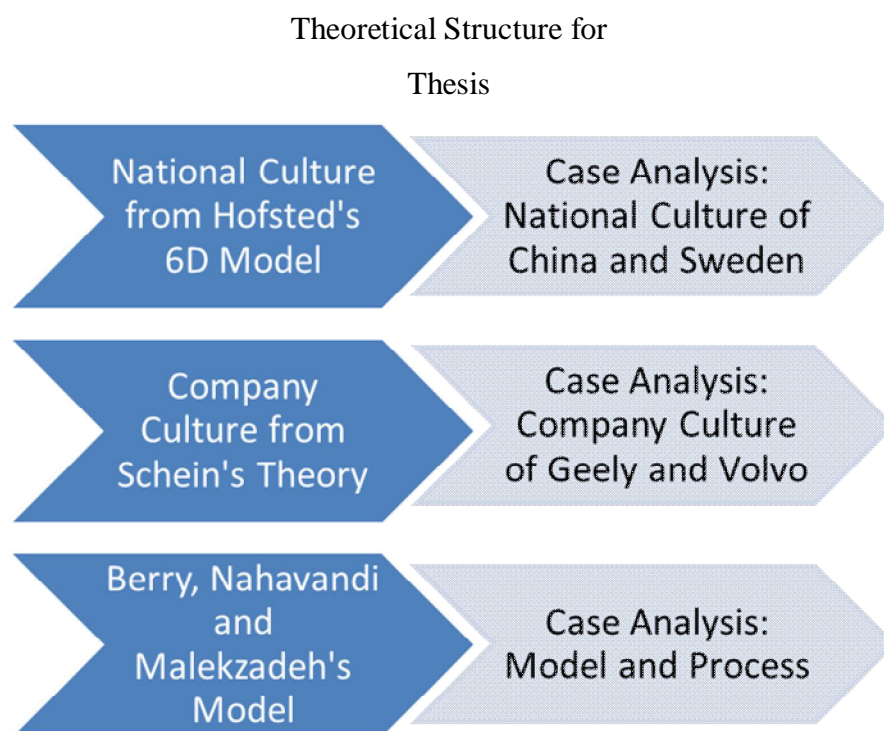


Figure 1.Theoretical Framework of Thesis

4.1 Nation Culture: Six Dimensions of National Culture

Prof. Geert Hofstede's six dimensions of national culture theory (1980s) is a framework for cross-cultural communication and it could be used to measure and explain cultural differences via quantified factors. There are six dimensions of national culture in his definition, which are PDI (power distance), UAI (Uncertainty Avoidance), IDV (Individualism versus Collectivism), MAS (Masculinity versus Femininity), LTO (long-term and short-term) and IVR (Indulgence versus Restraint).

Hofstede defined culture as "the collective programming of the mind distinguishing the members of one group or category of people from another" and

in this thesis, “category” would be used to refer to nations when applying this model to analyze (Hofstede 1997).

PDI

Power distance is used to measure how a less powerful member in a group accepts and expects unequal power. This measure of inequality and power is from the view of people who are at a lower level, rather than from the view of the upper level. This theory is based on the foundation that "all societies are unequal, but some are more unequal than others" and works to measure this inequality. (Gaspay, Dardan, & Legorreta 2008)

UAI

Uncertainty Avoidance refers to the degree of willingness to accept uncertainty or take risks in a society. In uncertainty avoiding countries people feel more uncomfortable when dealing with unknown, uncertain or surprising situations while in uncertainty accepting nations people tend to be more tolerant to different or surprising ideas or situations. (Gaspay, Dardan, & Legorreta 2008)

IDV

Individualism is a loosely integrated society that members attach importance to make profits for themselves rather than sacrifice for the society or nation; collectivism is a cohesively and strongly tied society that puts high value on the group and encourages the faith that group is superior to an individual. (Brewer & Venaik 2011).

M&S

Masculinity refers to a society which puts importance more on masculine characteristics, such as confidence, assertiveness, competitiveness or aggressiveness, while in the feminine society, feminine values are important among its members, usually emphasizes harmony and modesty. (Gaspay, Dardan, & Legorreta 2008)

LTO

A long-term oriented society versus short-term oriented society deals with the extent that a nation attaches more attention to the future or to the past/present. People in a long-term oriented society care more about future virtues, such as thrift and persistence, tend to have a sense of shame and look the world in a dynamic view. Conversely, a short-term oriented society owns characteristics such as personal steadiness and stability, reciprocation of greetings favors and gifts, and respect for tradition. (Venaik, Zhu & Brewer 2013)

IVR

Indulgence indicates a society which is tolerant to see individuals having fun, enjoying life or obeying human's natures, while restraint stands for societies who tend to restrict and regulate the nature of individuals' indulgence, mostly by name of customs or norms. (Gaspay, Dardan, & Legorreta 2008)

4.2 Corporate Culture

In order to explain culture within an organization, Professor Edgar Schein set up an organization culture model and in this thesis, it is used to illustrate the different organization cultures at Geely and Volvo. In addition, Schein's model could be useful for searching what steps should be followed to change culture. (Schein 2004)

According to Schein's theory, there are two mechanisms affecting organizational culture model inside a company: the direct mechanisms and the indirect ones. A direct mechanism works in a direct way and generates preferred behavior, opinion, status, and meeting. On the contrary, indirect mechanism works indirectly, affecting the mission, identity and the formal guidelines of the company. (Schein 2004)

In Schein's theory, companies adopt culture in a long time: it forms culture along with the operations of the company, with staff solutions the problems, when adapting to a new environment, and dealing with various changes. Inside a

company, older employees accumulate experiences from previous working, practice this acquired experiences every day, and build the company culture for new and potential employees who are aiming to integrate into new working ways. (Schein 2004)

4.2.1 Observable Artifacts

Observable artifact is the first level and surface of company culture. People can watch, hear, or feel it but it is hard to understand it. Artifacts include for example decorative style of offices, dressing code of the staff, slogans used, and psychological climate into company. Although these artifacts and symbols are also visible to externals, only employees inside of the company can totally understand and recognize the real meaning the company wants to express. (Hatch 1993)

4.2.2 Espoused Values

The second layer under observable artifacts is espoused values, which refer to the strategy, objective, and philosophy of a company. A company culture is greatly influenced by the manners of its employees, the standards employees follow, and the working attitude the employees have. (Buch & Wetzel 2001)

4.2.3 Basic Underlying Assumptions

Basic underlying assumptions are the deepest layer of Schein's company cultural model. It stands for the situation when employees are unaware of the company culture, regard it as nature born, but follow it all the same. Employees feel comfortable follow the hidden culture in making assumptions, beliefs, or behaviors unconsciously. (Buch & Wetzel 2001)

Profession Schein concludes these three levels of culture in Figure 2.

Three Levels of Culture (Schein)

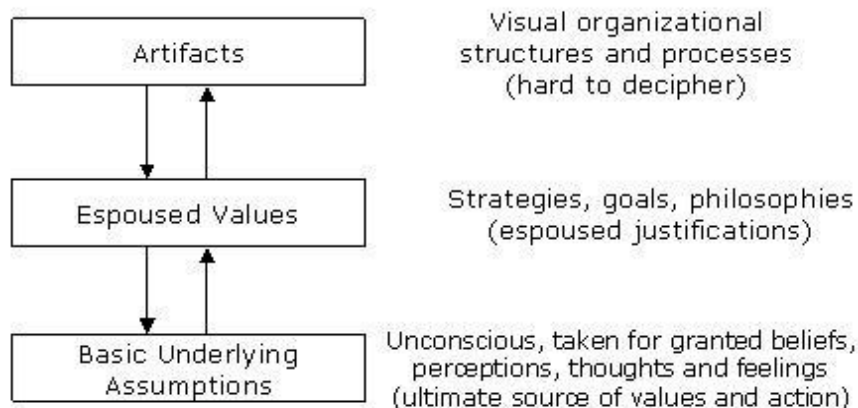


Figure 2. Three Levels of Company Culture (Schein 2004)

4.3 Cultural integration Model

Integration is defined as changes in both groups that occur as a result of contact between cultural groups (Berry 1980). Cultural integration model is set up by J.W. Berry. Based on his theory, cultural integration is also called acculturation, and this concept refers to adapting or reacting and relating to changes that people, from different cultures, working together may experience.

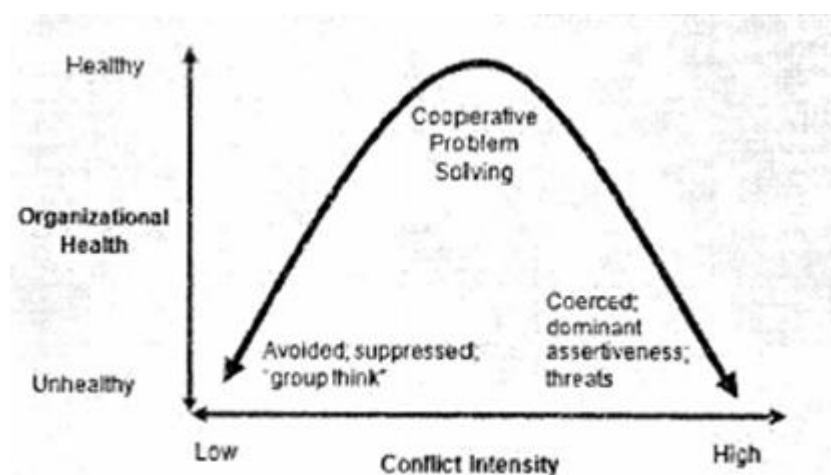


Figure 3. Organizational Health and Conflict Intensity (Andersen, 2013)

Although conflicts come with cultural integration, conflict intensity will decrease. Berry divides cultural acculturation into four models which include integration, assimilation, separation and marginalization. Here are the details of this model.

Integration

The integration model means that a new culture will maintain original cultures from both companies and will create a new one after interaction. After M&A activity, the present company generates a new culture from the foundations of both companies. (Berry 1983)

Assimilation

The integration model stands for the situation that after M&A activity, one culture takes the place of another, so that the new culture will only maintain one original culture, which will become part of the largest society. (Berry 1997)

Separation

In a separation model, one company rejects the culture from the other organization, and insists on keeping its own culture. Employees from the two companies communicate infrequently, and follow their own original rules in order to prevent conflicts. (Berry 1983)

Marginalization

The marginalization model reveals that the status of acculturation is negative. The core values and strategy are out of order, and the communication culture between both organization members is broken. The acquired or the acquired company not only disputes its own culture, but also rejects others culture. (Berry 1983)

The Four-fold model of Berry is presented in Figure 4.

BERRY'S ACCULTURATION MODEL

"Is it considered to be of value to maintain one's culture heritage?"

| | | No | Yes |
|---|-----|------------------------|--------------------|
| "Is it considered to be of value to develop relationships with the larger society?" | Yes | Assimilation | Integration |
| | No | Marginalization | Seperation |

Figure 4.Four-Fold Model of Berry (Berry, 1980)

Berry's model (Figure 4) gives a clear classification of acculturation but does not include how to apply it into practical work. However, Afsaneh Nahavandi and Ali Malekzadeh expanded Berry's model into the practical field and analyzed the impact factors of this model, in terms of the acquired company and acquirer company, as shown in Figure 5 and Figure 6 relatively.

Acquired Firm's Modes of Acculturation

| | | Strength of culture | |
|-------------------------------|-------------|----------------------------|---------------|
| | | <i>Weak</i> | <i>Strong</i> |
| Attraction to Acqiurer | <i>High</i> | Assimilation | Integration |
| | <i>Low</i> | Deculturation | Separation |

Figure 5.Acquired Company's Modes (Nahavandi and Malekzadeh, 1988)

Acquirer Firm's Mode of Acculturation

| | | Culture: Degree of multiculturalism | |
|--------------------------------|------------------|-------------------------------------|----------------------|
| | | <i>Unicultural</i> | <i>Multicultural</i> |
| Degree of relatedness of firms | <i>Related</i> | Assimilation | Integration |
| | <i>Unrelated</i> | Deculturation | Separation |

Figure 6. Acquirer Company's Modes (Nahavandi and Malekzadeh, 1988)

According to the figures, the acquirer company's choice depends on the degree of multiculturalism and degree of relatedness of both companies concerned. For the acquired company, the preferred mode depends on the attractiveness of acquirer and the identity of their own culture.

5 ANALYSIS OF THE RESULTS

Two employees from both Geely and Volvo were interviewed. The analysis in this chapter is based on the interviews and dialogues are attached in the Reference Chapter.

5.1 National Culture: China and Sweden

National culture mostly influences employees within society unconsciously and builds many basic values, including the role of work in employees' mind, how employees usually handle their work, what they expect and how they think they should be treated. In this thesis, the 6 dimension model of Hofstede is used in order to illustrate how cultural differences between China and Sweden affect the cultural integration at the post-merger stages of Geely and Volvo.

Hofstede's 6D model

| Country | PDI | IDV | MAS | UAI | LTO | IVR |
|---------------|-----|-----|-----|-----|-----|-----|
| China | 80 | 20 | 66 | 30 | 87 | 24 |
| Sweden | 31 | 71 | 5 | 29 | 53 | 78 |
| World Average | 55 | 43 | 50 | 64 | 45 | 43 |

Table 3.Hofstede's 6D model (Hofstede, 2010)

5.1.1 Power Distance (PDI)

Sweden with the PDI 31 points means a lower expectation of inequality in the working environment compared to China with 80 points. Swedish employees usually cannot accept privilege or inequality: employees probably regard themselves as equal to their superiors. Hence, at Volvo employees with more equality are easy to get along with, more willing to learn, and pursuing more their personal worth. Contrary to Sweden, status and power take greater importance to employees in China, which means the privilege owning to superiors is regarded as normal. This privilege at Geely could benefit subordinates to execute orders form

superiors, but it takes disadvantage for good relationships between employees and employers. Therefore, aiming to promote the cultural integration after acquisition, managers at Geely are recommended to decrease the power distance.

5.1.2 Individualism versus Collectivism (IDV)

The second sharp difference in national culture is the level of individualism. With the score of 20 points, China is a highly collectivist society, while Sweden, with a score of 71, is a loosely knit nation. The distinctive cultures referring to the case companies are that Geely encourages collectivism among its employees and employees are more probably to be loyal to Geely, but Volvo admires the freedom of an individual and rewards individual achievement.

5.1.3 Masculinity versus Femininity (MAS)

China marks 66 for MAS dimension, Sweden does 5. The result indicates that China is a masculine society but Sweden is feminine. The working environment at Geely appreciates the quick decision-makers or winners in competition, and desires for success, but the environment at Volvo promotes employees to reach a balance between work and life. The biggest working motivation at Geely is high financial rewards, while employees at Volvo also take other factors, such as holidays or flexible working hours, into consideration.

5.1.4 Uncertainty Avoidance (UAI)

The UAI level in both countries is similar: China is 30 and Sweden is 29. The factor reflects that employees from both companies tend to have similar willingness and behavior when facing uncertainties.

5.1.5 Long-term and Short-term (LTO)

Both China (87) and Sweden (53) have a higher LTO level than average (45). This factor takes measure of the importance of future rewards, so that the high level of China and Sweden means Geely and Volvo both consider the future more rather than focusing on tradition or history. Employees usually built persistence, prepare for the changing circumstance, and save money.

5.1.6 Indulgence versus Restraint (IVR)

Low IVR in China (24) stands for the core value in the Chinese society for duty and the higher in Sweden (78) for indulgence. Due to this difference, Geely and Volvo have opposite opinions on whether employees should be regulated by norms or, for example, do not need much control. It relates to the core value of individuals and could result in great differences.

5.2 Company Culture

This section gives information about company culture mostly from the conducted interviews with the employees by Skype. The questions in the interviews are related to Volvo's culture and related issues. The dialogues can be found in Appendix 1 and Appendix 2.

5.2.1 Artifacts

The characteristics of Geely and Volvo in terms of artifacts are listed in Table 7.

| Geely | Volvo |
|---|--|
| <ul style="list-style-type: none"> • Employees are asked to wear uniforms. | <ul style="list-style-type: none"> • Employees could dress up casually. |
| <ul style="list-style-type: none"> • Fixed working time (punch card system) and some overtime working. | <ul style="list-style-type: none"> • Flexible working time (no punch card system) and rarely overtime |
| <ul style="list-style-type: none"> • Tasks should be completed before deadline, otherwise a punishment will follow. | <ul style="list-style-type: none"> • Late task after deadline could be understood with reason. |
| <ul style="list-style-type: none"> • Luxury style furniture in the headquarters (Hangzhou) but lower quality in the plants | <ul style="list-style-type: none"> • Buildings are decorated in a united style with good quality. |
| <ul style="list-style-type: none"> • Slogan: Relax today, lose tomorrow | <ul style="list-style-type: none"> • No slogan in the office |

| | |
|---|--|
| <ul style="list-style-type: none"> • Bustling with noise and excitement in all offices | <ul style="list-style-type: none"> • Quiet and well-organized |
|---|--|

Table 4. Artifacts of Geely and Volvo

Based on the results, it could be found that employees are permitted to work harder and sacrifice relaxing time for Geely; while employees at Volvo are not recommended to work over time or lose life balance between the company and private life. Employees at Volvo could have more freedom and a more flexible working environment than at Geely. The management style at Geely is authoritative-oriented and task-oriented, while Volvo provides people-oriented and less direct supervision to employees. Following a strict company culture, employees at Geely are trained by a militaristic approach to be competitive. However, Volvo leads a more freedom family-like culture, employees living in a free working environment. It is likely that Volvo could create more innovations while Geely works more efficiently and effectively.

5.2.2 Espoused Values

| Geely | Volvo |
|---|---|
| <ul style="list-style-type: none"> ● Decision-making: Leader or superior can make a decision immediately and disagrees from subordinates can be neglected. | <ul style="list-style-type: none"> ● Decision-making process takes a long time as decision should be approved from a centralized system. |
| <ul style="list-style-type: none"> ● Mission: Build the safest, most environmentally-friendly and most energy-efficient cars. (Geely Global, 2014) | <ul style="list-style-type: none"> ● Strategy: Make the best luxury car |
| <ul style="list-style-type: none"> ● Vision: Bring Geely to the world. (Geely Global, 2014) | |
| <ul style="list-style-type: none"> ● Core Value: Happy Life, Geely Drive. (Geely Global, 2014) | <ul style="list-style-type: none"> ● Core Value: Safety, Quality, and Environmental (Volvo Cars, 2015) |

| | |
|--|---|
| <ul style="list-style-type: none"> ● Message: 🚦 (before acquisition of Volvo) To be the best affordable cars in China! 🚦 (after acquisition of Volvo) Start your safe driving here. | <ul style="list-style-type: none"> ● Message: For live |
| <ul style="list-style-type: none"> ● Philosophy: Control cost and make profits | <ul style="list-style-type: none"> ● Philosophy: People-orientated |

Table 5. Espoused Values of Geely and Volvo

In terms of espoused values, Volvo always aims to improve safety and promotes eco-friendly cars, while Geely's mission experienced a change after the acquisition. Geely used to focus on the market share and sales volume, which can be found in the interview with S in our survey, but after the M&A activity, Geely changed its goal into the improvement of quality and safety. Even if the final goals of the two companies are the same, there is still a need for Geely's employees to make real change.

5.2.3 Basic Underlying Assumptions

It is hard and probably unfair to analyze the deepest layers of companies when not being one of the employees. However, some characteristics can still be found, such as employees at Geely are working very competitive while Volvo's employees do not need strive for basic needs and so can focus more on luxury cars. (Gertsen 2013)

5.3 Modes

It is a challenge for Geely to take advantage of the cost control and also maintain at Volvo's luxury brand and make profit. Based on the theatrical models and analysis, I would like to apply these into the case and try to find out a suitable process in order to achieve cultural integration.

5.3.1 Volvo's Viewpoint

Volvo has a nearly 100-year history and a mature culture, while Geely has worked in car industry for only about ten years, which probably leads to Volvo not having confidence in Geely's culture. In addition, Volvo's employees already own a high recognition for Volvo's culture and have a desire to maintain the original culture after the M&A. Hence, it could be concluded that Volvo, with a low interest at Geely's culture and a high preservation for own culture, prefers the separation mode as shown in Figure 7. (Sina Financial Media 2015)

| | | Willingness to preserve Volvo's own Culture | |
|-----------------------------|------|---|-------------------|
| | | Weak | Strong |
| Geely's attraction to Volvo | High | Assimilation | Integration |
| | Low | Deculturation | Separation |

Figure 7. Volvo's preferred mode

5.3.2 Geely's Viewpoint

At Geely, an interview was held with an employee from the top management. The conversation is mainly about how Geely regards Volvo, what was Geely expects from Volvo and what Geely plans for Volvo. Due to the interviewee's answers, it could be found that employees have a positive willingness to learn from Volvo and improve Geely's culture. The dialogue conducted can be found in Appendix 2. The chairman and CEO of Geely even said publicly that "Geely is Geely, Volvo is Volvo" to illustrate that he respects Volvo's culture and would like to manage the two companies differently. In addition, after the M&A activity, Geely changed its strategy from using lower selling prices to capture market share to improving the safety and quality of their cars, along the same strategy as Volvo. Based on this, it can be concluded that Geely, which has a high degree of multiculturalism and high degree of relatedness, prefers the integration mode as shown in Figure 8. (Sina Financial Media. 2010)

| | | Degree of Geely's multiculturalism | |
|---------------------------------|-----------|------------------------------------|--------------------|
| | | Unicultural | Multicultural |
| Degree of companies relatedness | Related | Assimilation | Integration |
| | Unrelated | Deculturation | Separation |

Figure 8.Geely's preferred Mode

Based on the modes analyzed above, in order to achieve cultural integration, I would like to recommend a “separation-integration” model for the cultural integration. In other words, Geely could focus on how to increase the attractiveness of Geely's culture and manage two companies separately at the beginning stage, and then choose an integration mode in the next stage.

5.4 SWOT Analysis of Separation-Integration Model

A SWOT analysis is given in order to evaluate the “separation-integration” model.

5.4.1 Strengths

Structure

Firstly, the advantage is the unique nature Geely has. As a private enterpriser, Geely does not have any technical or financial support from the government, so that Geely has experienced a lot and is certain with how to attract more talent, how to modify strategy when needed. This valuable experience could benefit Geely in integrating Volvo.

In addition, without the bureaucratic ties, the operation system at Geely is flexible and it is easy to make a transform between separation and integration management modes. In addition, Volvo was only a small part in Ford's Premier Automotive Group (PAG) and made no great influence on Ford. After acquisition to Geely, who has a small number of upscale brands, Volvo could act as a star and Geely could pay more attention on the cultural integration process. (Wikipedia 2015)

Financial Position

The profit margin of Geely increased from 2006 to 2008; especially, the company enjoyed a booming time after the year 2008. In addition to this, Geely went public in the Hong Kong market (0175) in 2004, which could provide great support when raising funds. With a good performance on selling and financial position, customers tend to have stronger confidence at Geely's development and Geely's changes. (Company Caixin, 2013)

5.4.2 Weaknesses

Technical Weakness

Technical problems, including the production process of some key parts and engines, are always disturbed in the Chinese auto industry. Nearly all of the biggest Chinese auto manufacturers are using the advanced technology from foreign partners. In terms of technology, Geely is not as developed as these old companies, thus unaccusable to Volvo's technology will be a huge lost if a separation mode is taken for a long time.

Market Share Weakness

The average market share of Geely in the whole Chinese mainland is quite low. For example, in 2008 the low market share percentage in the developed cities or provinces has led to this situation, with only 0.16% in Shanghai, 0.94% in Beijing, 0.98% in Jiangsu Province. The higher percentages are in western China, especially the less developed places, such as 5.22% in Guizhou Province, 4.91% in Qinghai Province, 4.61% in Ningxia Province, and 5.23% in Gansu Province. The market Geely did not perform well will be the main market of Volvo on the integration stage, so that Volvo cannot use Geely's resources like reputation and loyal customer. Therefore it is still questionable if Geely can help Volvo develop in the Chinese market when taking an integration stage (Company Caixin 2013; Deloitte 2015).

5.4.3 Opportunity

Globalization

Although Geely's mainly market, China mainland, is a huge market, the market in a single country is limited. In a long run, Geely will expand its market into foreign countries and now Volvo could be the bridge its go-out strategy. There are two advantages for Geely in acquiring Volvo: Volvo with a good reputation mainly sells its cars in Europe and the US, and Geely could use the selling, manufacturing, and service centers of Volvo with a well-operated integration mode.

Strategic Transformation

Geely has met come across trouble during its development in the recent years: the low selling price for a long time resulted in that Geely could not improve the quality of its suppliers, which suffered from the quality of cars Geely manufactured. Also, along with the increasing price of components, low selling price lead Geely to have no ability to make profits or to invest in R&D. Due to this situation, a great strategy for Geely in acquiring Volvo is to gain a new character. Specifically, Geely can improve its image from a low-priced brand via the acquisition of Volvo's brand and technology if an integration mode is taken (Sohu Finance, 2011).

5.4.4 Threats

Transition from Separation to Integration

Culture conflicts will be the primary task Geely needs to solve. How to decide the transition time from separation to integration will be a threat for their cultural integration process. Without a suitable timeline for transition, negative results can be generated at Geely or Volvo.

🚩 Labor Dispute

It can be found in many M&A activities that labor disputes have been a challenge to Chinese companies when expanding overseas. Since the majority companies do not pay enough attention to labor disputes in the domestic market, they have no sufficient experience and skills to deal with powerful labor unions in overseas markets. If Geely and Volvo take an integration mode, the ability of Geely to deal with labor disputes can be a threat.

To sum up, a separation-integration model can benefit Geely and Volvo greatly if the process can be organized and conducted well.

6 CONCLUSIONS AND ASSESSMENTS

6.1 Conclusions

It can be found from the made analysis that the general situation of China's auto industry is positive and globalization is becoming common along with the "going-abroad" strategy. Many auto companies have used cross-border M&A activities, but confronted some challenges and obstacles, such as legal norm obstacles, financial problems, and culture conflicts. Particularly, culture conflicts caused by cultural differences can become huge obstacles and, thus, cultural integration should have a key role in the post-merger stage (PwC 2015).

The case of Geely and Volvo was used to analyze and find out that the national culture difference between China and Sweden are mainly located at MAS and IDV, which may lead to the differences in the decision-making process and relationships of employees at Geely and Volvo. The analysis of the company culture displays the various degree of innovation-possibility that is working environment and system related. Based on this information and the theories of Nahavandi and Malekzadeh, Geely should use the separation mode in the current stage, and then try to close the integration mode via increasing Geely is cultural attractiveness to Volvo's employees.

6.1.1 Separation Stage

During the preparation stage, Geely is recommended to seek interaction and learn from Volvo's culture, especially from the management level. The following steps Geely could carry out:

Culture investigation

The foundation and first step to cultural integration for Geely's management is to investigate Volvo's culture comprehensively, especially for cultural differences, including core values, main rules, strategy, and leadership style.

Improving acculturation ability

The relevant talents and HR resources are always the engine and motivation for companies; especially the Chinese expatriates who will go to Sweden take key importance in the integration. Expatriates without the ability to cultural integration would cause challenges when cooperating with colleagues at Volvo.

Building a communication system

After the acquisition, Geely and Volvo would become one team, which means team members need an effective and efficient communication system. As discussed in the last chapter, there are huge differences between both company and national culture; this system could benefit not only promoting cooperation but also solving conflicts when problems arise. (Anna & Pervez 2007)

Training for cross-culture

Culture refers to far-ranging issues, such as language, customs, thinking styles etc. Companies only with passion for integration but no knowledge would be hard to succeed in this field. Hence, aiming to improve integration ability and relief conflicts, Geely could recruit some experienced entrepreneurs or professionals to address lectures, hold workshops, trainings, exchange trips or set up an integration coach department. (Barkema, 1996)

6.1.2 Integration Stage

After the preparation, Geely will have a clear vision at Volvo's culture and ability for integration. In the integration, it is recommended that both companies learn from each other, then modify their culture, and finally get along well. After the process above, Geely is likely to have increased its attractiveness to Volvo and now both sides could enter into the real and deep integration. In this stage, cultural integration goes from the appearance into the core layer. Hence, Geely could do the following:

Find common rules

Along with the integration process, both companies would find some common rules or values. Based on this, the companies need seek common points while reserving difference. As the acquired side, Volvo should put more value on the common rules and interact more actively; Geely should provide Volvo with its strengths and potentiality in order to increase the sense of identity.

Learning from each other

In order to have a clear perspective of each other, Geely and Volvo should learn from each other. More specifically, Geely should not put its values and strategy into Volvo directly; Volvo could modify and change. Geely could work more to promote integration and create a balance between integration and separation.

Build common perspective

Geely could design a common perspective that both companies recognize, plan and explicit details on how to make it true. Also, the foundation of this measure is that employees from both parties understand and agree with it.

Internalization of culture system

After the acquisition, Geely, willing to acquire new culture, is expected to build a system which could support the work of new culture, and so achieve its goal to improve its brand.

6.2 Reliability

The interview with J, the employee at Volvo, contains both objective information, such as the working time, and some subjective information, such as “what do you like most at Volvo” and “what do you dislike most dislike at Volvo”. However, the subjective questions are designed to explore the highlights and disadvantages at Volvo, rather than to make comments for the company. What information needs to be noted here is the behavior of J: he is my indirect friend. His friend Y introduced J to have the interview and K was present during the Skype interview.

K joined the conversation at times because K also works in this industry and thus the interview environment was relaxed. J talked at some points actively, but two days after the interview J texted to me to sign anonymously, and he explained the reason that his superior asked for confidence. Reviewing his interview, no confidential information is found by me so that I tend to agree that J's answers during the interview are reliable and the relation between Geely and Volvo is sensitive.

However, it needs to be admitted that in my view the interviewee S tended to express Geely and Volvo in a positive light and avoid negative words, especially the words like "conflict". It can be understood because the employees at Geely, especially on the top management level, would like to give a good public impression on the acquisition. If another person was asking related questions, the interviewees would answer differently: Geely's employees may have different ideas about the integration and they will not discuss these ideas with people from outside of Geely.

In general, the reliability of this research is high.

6.3 Validity

6.3.1 Internal Validity

In the qualitative research of this thesis, the interviewees and the interviewer communicated in their mother tongue Chinese, so that the interviewer could ask what she wanted and the interviewees could express themselves correctly without any problems in terms of language. Thus, misunderstandings could be avoided and the truth could be guaranteed during conversations.

Besides, both interviewees were selected by me personally and carefully so that the interviewees can give detailed information during interviews. Questions are designed for the topic of cultural integration. The aim was to avoid bias in problem statement, such as tendentious question. When drawing a conclusion, the interviewees were asked to check the material.

6.3.2 External Validity

In terms of external validity, information was collected from one case study, an acquisition between Geely and Volvo. Companies in a positive macroeconomic environment such as China will develop fast and tend to look for related advance in M&A activities in order to develop themselves. Conflicts between the developing party and developed one generate inevitably and integration models could be chosen at the case companies. However, qualitative method taken by the research can only provide deep research about the case companies and cannot be applied into generalizability.

6.4 Future Research

M&A activities refer to complex procedures and issues, and cross-border M&A activities do more. Therefore, cross-border M&As and related cultural integration should be take great attention.

In this research, Geely and Volvo were chosen as case companies: Geely, as an acquirer, has a weaker company culture than Volvo has. Analysis and results are highly connected with this fact that acquirer's culture is weaker than acquired's. Therefore, a perspective research could be to choose another acquisition case, which acquirer's company culture is stronger than acquired's, in the same background. Based on this situation, different observations may be found and different results may be drawn. This could be a good addition to current scholars' researches about cultural integration in cross-border M&A activities.

APPENDIX 1.DIALOGUE OF INTERVIEW WITH GEELY'S EMPLOYEE

J works in Product Development Engineer at Volvo Technology since 2008. As he asked, we use anonymous.

("J" stands for interviewee, and "T" stands for Interviewer.)

I: What's the working stress like at Volvo? Could you please tell something about your working schedule inside Volvo, including the overtime working?

J: Actually there is no overtime working, nearly no. We work 8 hours a day and 40 hours a week. If we work overtime, the time will be compensated latter.

I: Is there no overtime working is for your own or all employees?

J: I think for all. Most of my colleagues do not have overtime. I don't think Volvo promotes employees to work overtime, rather they hope we have a balance between work and life. You know there is a word "brainburn" to describe that kind of person who flings into work, it's not good.

I: So what happens if you come late? Is there any equipment like punch card?

J: Our schedule is 9am-3pm, but it's okay if you come lately or leave early. There is no this kind of medicine in our company. The working time is flexible. If only you complete tasks, it's okay you do it in home or in company.

I: Well, it's quite flexible, so do you have any rewards or punishment in your company?

J: No punishment; say, there is a project whose deadline is tomorrow, and you stay up all night to complete it. It's not good. The company doesn't appreciate it.

I: So what happens if a task is completed late?

J: Actually it can be understood if you have a good reason. Nobody will blame you for the late and no punishment. The working load will not be over. If you really work efficient but cannot finish it, you don't need to take responsibility for it.

I: Will this no punishment system cause employees to be clock watchers?

J: En... how to say, I think overall atmosphere in Sweden is this. They provide employee with a sustainable model, employees are supposed to find a balance between work and relax.

I: Okay, so the next question: what's the dressing code at Volvo? Do you need to wear like uniform or business casual in daily work?

J: I think no, for me I can wear anything, T-shirt, sports wearing, casual or anything. But most people would like to wear a shirt. But for my boss's boss, I mean two levels upper me, may need to wear suit when have meetings.

I: Could you please tell us something about your office at Volvo? Like the furniture, the decoration style.

J: It's an open office. For most employees, it's open office. But for some older, they have private office.

I: Okay, my next question is, is there any slogan in your office, like "working hard and play hard"?

J: Ah, I think no. I cannot find anyone.

I: Okay, so can we conclude that the working environment at Volvo is quite flexible and people-oriented?

J: Absolutely, I think so.

I: What's the role the labour union play at your Volvo unit? You know, labour union has great power in Korea, which led the SsangYong to go bankrupted. Is it at Volvo as it's important in Korea?

J: Well, I think not really. I know some cases like Citroen, labour union limits Citroen a lot in France. But at Volvo, I don't think labour union has such power. We only need to discuss with them about the salary level or get an approval to fire someone.

I: If you have any dispute are dissatisfied with your superior, whom are you going to look help from?

J: I think it still will be Labour Union.

I: What's the biggest characteristic at Volvo you think?

J: Well, I think it's innovation.

I: Could you please prove more details?

J: Yes, how to say. I think innovation is the core value of Volvo. Say, Geely can buy the plants or technology from Volvo, but it's not easy for them to get Volvo's innovation capability.

I: Ha, I used to think you'd say "safety" or something like that, because I found so many resources about safety for Volvo.

J: Definitely, safety is crucial to Volvo. You know Volvo invented three-point belt, it's a milestone in auto history. And now, we just invented another great: we equip air bags in hoods of our cars, so that if our car crash with a bicycle or pedestrian, the air bags will go off to protect the bicycle-driver or pedestrian. It's a new invention.

I: Wow, it's definitely a great invention.

J: Yes, so that I think innovation is the core value of Volvo. Our competitors could copy and follow it, but we can catch up with us.

I: So how do you think Volvo can keep its competitiveness? How will Volvo generate and keep its innovation ability?

J: Well, you know innovation links with freedom and flexibility closely. Creativity cannot live in a rigid environment. I think one factor is the free and flexible working environment Volvo provides with us.

I: Okay, so now I'm going to ask the last two questions. What's the thing that you appreciate the most at Volvo?

J: Appreciate most.... How to say, for me, talking about my career development I will take my family into consideration. (Mr.Jiang is single now.) Volvo could provide me with a good working environment that is steady income, not so much uncertain, suitable working stress, all these could give me a long term plan to live and work here.

I: True. So what's the thing you dislike the most at Volvo?

J: En...I think it's the decision-making process.

I: Decision making? What's the matter with it?

J: Say, it usually happens that the decision needs a long time to arrive to us. And sometime, we wait, wait, no then there is no result.

I: Why does this happen?

J: Well, because the process is too long, and you don't know where the status of the decision is now. Also, there is usually no clear rule to regulate somebody

should take charge for what, so sometimes the decision may be pended for a long time.

I: Is there any changes after the acquisition with Geely?

J: En... I think nearly no. We follow our original rules and work with the same colleagues.

I: Okay, do you have any business contact with Geely? We know Geely bought all the intellectual power of technology from Volvo, and you work for the R&D department, so do you have many contacts with Geely?

J: Well, not so much. You know Geely bought Volvo from Ford. There are some contracts between them, to limit Geely to use the technology invented in Ford' time, which are the main, core technology. But Volvo and Geely built another R&D department in Gothenburg, which works like a sub-company. It makes research for Geely but is organized totally in a Volvo's way.

I: Do you know the situation in that company?

J: Yeah, some of my colleagues work there and nearly all of them said it runs in a same way. Geely doesn't have many contacts with them except have the right to use their gain. And it's a paid-use. Actually I think Geely want to keep the independence of Volvo, keep the high-end brand, the luxury. It's like Lexus to Toyota. You know Lexus is a quite independent sub-company to Toyota. Although Toyota provides affordable cars, Lexus is a luxury and doesn't have too many contacts with Toyota in public's mind.

I: Okay, now I see. So there are no salary changes, nor a new boss or new rules to you guys, right?

J: No, we stay the old way. Actually, I can't find any change to my work, but I heard some disagreement in senior managers.

I: Could you mind giving some details? What kind of disagreement it is?

J: Sure, It's about the production positioning. Geely wants Volvo to develop more on big cars... you know that kind of luxurious and fashionable cars that Chinese high-end clients appreciate. But the top managers at Volvo want to keep its tradition that focus on safety and the Nordic low key luxuriance, rather than big cars that would compete directly with BMW Benz or Audi.

I: It's a dilemma.

J: True, we're original from China so that we can understand what Geely wants. Chinese know Volvo but don't know it so much. Only that kind of big cars could make Volvo catches target group's attention immediately and achieve the recognition as a luxurious brand in a short time. But it's not what Volvo used to do.

I: So does Geely do for the disagreement?

J: Well, I don't know about details, but I think they found a compromise. We follow the old pace, but the new plant in Gothenburg, we just mentioned, are supposed to develop cars to match Geely's requirement.

I: So, in your opinion, do you think the acquisition with Geely is a good deal for Volvo or is negative?

J: Well, I think it's not bad.

I: How do you think your colleagues would like to think? Do they think the acquisition is good?

J: Actually I think the majority would agree with me. The acquisition didn't take any negative influences to us. Maybe a few of extremes disagree cos Volvo is nobler than Geely. Maybe.

APPENDIX 2.DIALOGUE OF INTERVIEW WITH VOLVO'S EMPLOYEE

S is the secretary of one of the top managers at Geely. Following her requirements, we use an anonymous name and position for her.

I: What's the main reason for the board to choose Volvo instead of other brands? Especially, I found some information that the executive board prepared for the acquisition nearly 8 years. So what's the shining point that defers Volvo to others when the board makes a decision?

S: Well, we did many researches in this field, about the history of auto. We found that Volvo is the respected company, especially in innovation capability. From our research, we found that nearly most great safety techniques are invented by Volvo.

I: Does it mean that the board is willing to operate Volvo in its original way?

S: Yeah, we think Volvo is respected not only in brand equity but also in culture value. Volvo now presents an idea: double zero, which means no fatalities, no emission. We are confident to make it come true in 2020.

I: Is it difficult to manage Volvo? Does the board feel stressful?

S: Of course it's stressful to lead such a famous company. But you know Volvo, centuries-old company, has its own operation principles, such as a western company has a stable system, so that we don't need to make efforts to change it.

I: No changes?

S: How to say. We like the system and brand of Volvo. Although the ownership of Volvo changed, we don't want to make changes to the sustainable development of Volvo. What's more, we hope the change we brought about to Volvo, could help Volvo to work well in its own core value. Therefore, we did some changes, but all of them are followed and gone on at Volvo style.

I: Could you mind talking more about the changes?

S: Like we want Chinese clients are aware of Volvo better. So, talking about develop and compete in Chinese market, we try our best to offer some suggestions to board at Volvo, in order to make them understand Chinese market deeply and know the demand of Chinese customers better. Therefore, to increase the market share in China, this is what we do.

I: What's the board at Volvo come from?

S: Well, there are three from Volvo that labour union designated, five elites we looked from globally. The new CEO, Stephen Jacob, is the previous CEO of Volkswagen in US part. We look for talents who have auto related background and appreciate the culture of Volvo.

I: Okay, so next question. We know you appreciated Volvo at the beginning of acquisition and now there has been 5 years of the acquisition, not a short time. Is there anything about Volvo you think doesn't match you expectation? I mean the defects of Volvo.

S: Hah, I think no. Volvo is charming. The good fame of its brand is fair. We found surprises instead of defects. Say, during the Ford's time, we could not visit the test site or R&D department, but now we can visit. Their test ground is amazing. There are five test sites in US, Nordic countries, and Sweden, and I visited two of them. I was surprised to find that huge, big scale of test sites, and professional. It's a surprise to me.

I: Nice. Actually I heard some voice that the top management has some dispute about the production positioning, or target group. Is it true?

S: I don't understand what you mean.

I: Well, like, Volvo has nearly 90 years history, is the pioneer to be low-carbon eco-friendly and safe, and is always regarded as the symbol of bourgeois class. Yet owning a history longer than Benz BMW, Volvo doesn't receive popularity as high as Benz and BMW. So I was wondering if Volvo will modify in order to match Chinese taste or will keep its original strategy.

S: I see what you mean. The sales volume in China for Volvo in 2010 is only 24 thousand cars, while we think Volvo has a potential capability to 200 thousand cars. We want to make contributions to make it come true. I think the priority thing for Volvo to expand is the target group. It positioned on the educated highly valued ladies and gentlemen, like professional, doctor, lawyer, banker, artist, or environmentalist. It's too limited and narrow, since in current China this group is too small. Thus it could only sell several thousand cars. Based on this, the board wants to do some modifies on product design, to let more Chinese customers share the merits Volvo can bring about.

I: So what kind of modifications do Chinese customers need? Or what characteristics do you think Volvo needs to change?

S: Not really, before we change Volvo, we would like to change ourselves. Chinese market has its own characteristics, it's different from Europe. The King of Sweden visited China and met Mr. Li (Li Shufu, the president of Geely) in 2010. The King said he drives Volvo, Volvo 430, the minimum emission at Volvo. This situation will not happen in China. Therefore, when talking about expand market in China, Volvo really needs to research the thinking style and consumer psychology. There are 30 years for Chinese Reform and Opening up, and it certainly cultivated many talents with high living quarters, but it's only 30 years, it requires longer to cultivate larger groups. So, if Volvo wants to insist its brand value, to insist selling cars to received people who live a low-key, modest extravagant life, we're trying our best to cultivate this target group and make them know Volvo. We built a Volvo Business School in Chengdu. Volvo has the most developed technology in safety and environmental protection, but fewer people know it. Let more people of vision to be aware of Volvo's merits, is the responsibility that Business School are taking.

I: Volvo Business School is new information to me.

S: Yes, we are still building it so it's quite new. We signed a partnership relation with CEIBS (China Europe International Business School), so that CEIBS will help us. You know CEIBS right?

I: Yeah, it's well-known. It was founded by Mr. Li Ka-shing and I think most influential Chinese CEO took a MBA there.

S: True, we attributed it a lot.

I: I think to cultivate the target group is only one of many effective methods, did you make any other efforts?

S: Of course and I think that is what you mentioned disagreement. We presented to produce more big cars, you know high-emission cars, Chinese favor that one, but management disagrees.

I: So how did you solve this disagreement?

S: This disagreement is due to thinking style or we say national culture. I mentioned, Swedish King drives a small-engine car. So I think Mr. Li will do some fine turning, but only in Chinese market. The strategy in the whole world will not be changed. It just on discussion stage and the board doesn't decide.

I: How did Volvo react to this conflict?

S: It's not conflict, instead it's discussion. Chinese customers demand big cars, limousine, so that I think we produce, but Volvo disagrees. They think it's a waste, there is no need to develop extended edition. I restate it's not conflict. Like, western market is different and westerners think differently. They do what they want, what they think right, and willing to follow an established and recognized value. But, in the view of a company, it's better to have a flexible value that could meet different markets' demand, rather than follow a fixed one and apply it

patterned to every market. Also, this pattern, this value of Volvo has been grown for several generations and it's really tough to change. Maybe the insistence is right maybe it's wrong. So our board is still on the learning process, you know Mr. Li regard the sentence from Confucius as motto, "gentlemen seek harmony but not uniformity." We all work for a better future of Volvo so that discussions are welcome.

I: Are there any other disagreements? How do you deal with the issues when they disagree?

S: Some, like Mr. Li wanted to produce cars that can complete with Benz S series and BMW 7 series directly, while Steven thought it's not the right time and gave his reasons. Mr. Li finally agree. These discussions are normal and good to our business.

I: Is there any other measures Geely have done to solve disagreements?

S: Exactly. We set a Communication and Cooperation Council even in 2010. We run Geely and Volvo separately but what happens if some cooperation chances appear inside of this two companies? Thus, we set this council, if there are cooperation chances and common interests, we can cooperate and communicate efficiently.

I: Does the board have any plans for Volvo's change?

S: Yes, we do. Our aim in Chinese market is 200 hundred cars. How to reach it needs us make efforts on business planning, especially on marketing. Volvo cannot rest on past achievement or totally continue its original culture, the innovation culture, engineer culture, technology culture, and quality culture. It's not enough. We should put more efforts on target group research, to help Volvo adjust to more Chinese. Thus, it's the priority to develop new types of cars.

I: What types of cars are you going to issue for Chinese market in the near future?

S: We have been making it! The board has confidence on it because Volvo owns a strong R&D capability and we put tens of billion dollars each year. It's not a challenge for Volvo to make technological turning.

I: Is there any possibility that Volvo will become a Geely-style Volvo?

S: No, this will not happen. They are two brands: Volvo is a luxury brand yet Geely is an affordable one. Their competitors, customers, and company culture are different. They are two definitely different investment targets, which are led by two management layers. There is no direct or indirect administrative relationships, so that no interactions between them. Thus Volvo will never become Geely-style Volvo. It's like Ford owns Jaguar, Land Rover, Aston Martin and Mazda. Do these brands become a Ford-style? Not at all. We can only say that Geely Holding Group and Shanghai government own Volvo Car Corp, but Volvo will never be Geely.

APPENDIX 3.INTERVIEW INVITING LETTER

Dear Sir or Madam,

I'm a senior student at Vaasa University of Applied Science, and I'm currently writing my thesis about cultural integration of cross-border mergers in automobile industry. Your company has an outstanding reputation in auto industry and I've read papers about Volvo's culture and especially appreciated it.

I would like to spend 20 minutes with you to discuss cultural integration with Geely, regarding to the company culture at Volvo, working satisfy, and changes after acquisition between Volvo and Geely.

Would it be possible to have an interview on phone or Skype? Would anytime in Sunday to Wednesday afternoon/evening be a suitable time for you?

Thank you for your time and best regards,

Ruoling WAN

Thesis student of VAMK

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