Post-Acquisition Control in Cross-Border Acquisition of Chinese Enterprises Base on the Institutional Theory

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Abstract. This paper discussed the control strategy after cross-border acquisition of Chinese enterprises from the perspective of institutional theory. Isomorphic behavior of organization driven by external legitimacy influence the control strategy after cross-border acquisition of Chinese enterprises; while path dependent behavior driven by internal legitimacy influence the control strategy after cross-border acquisition of Chinese enterprises; institutional distance under the action of legitimacy has a moderating effect on the relationship between control strategy and acquisition performance. On this basis, this paper proposes the model of relationship between control strategy and performance after cross-border acquisition of Chinese enterprises.

Introduction

Cross-border acquisition is an important approach for Chinese companies to enter the international market and gain global competitiveness. At this stage, China's cross-border acquisitions of enterprises presented a rapid growth trend, showing the characteristics of large quantity, speed and large scale. In 2016, the number of cross-border acquisitions by Chinese companies as a buyer was 249, with a total transaction value of $ 45.8 billion, an increase of 10.49% compared to 2015. However, cross-border acquisitions of Chinese enterprises also exposed a lot of problems, the acquisition success rate is not satisfactory, especially the integration difficulties after acquisitions, makes it difficult to achieve the desired objectives. However, some scholars point out that although integration is critical, the “one-size-fits-all” does not exist; the key to successful acquisition is to take appropriate control strategy [1]. For many Chinese enterprises, how to develop control strategy is the key to success but also the biggest difficulty. For example, Geely implements decentralization after acquired Volvo, Haier take independently dual-brand operation after acquired GE operations, Midea’s Not-reorganized-commitment after acquired Kuka, all of this are regarded as "expedient"[2]. But on the other hand, a high degree of control would be a challenge for acquisition legitimacy, especially when buying companies from western developed countries. Under the new situation, how can Chinese enterprises to achieve effective integration after successful cross-border acquisition and to achieve the expected goal is facing new challenges, especially the impact of the legitimacy barrier which brought about by the foreign institutional environment differences on cross-border acquisitions[3]. Therefore, from the perspective of institutional theory, especially legitimacy, this paper reveals the choice mechanism of the control strategy after the cross-border acquisition and its effect on the acquisition performance. This is not only for improving the success rate of acquisitions, but also for Chinese enterprises through cross-border acquisitions to achieve industrial technological innovation, thereby enhancing the overall competitiveness has important theoretical and practical significance.
Legitimacy and Post-Acquisition Control

First, we analyze the relationship between isomorphic behavior of organization and the choice of control mode after the acquisition from the perspective of external legitimacy. The institutional factors, which are made up of regulatory, normative and cognitive, form the concept of what kind of business behavior is legal in the enterprise field, and then form institutional pressure to drive the enterprise to make decisions in accordance with the requirements of external legitimacy [4], resulting in organization isomorphism. The uncertainty of the decision-making environment is the main cause of the organization isomorphism [5]. Companies in an uncertain environment are going to imitate other companies, especially the industry leader, to obtain external recognition, even if such external imitation is uneconomical [6]. The greater the degree of uncertainty, the higher the degree of decision makers based on social references to make decisions. As cross-border acquisitions face greater uncertainty, in order to obtain greater external legitimacy, so the Chinese enterprises are more likely to take organization isomorphic after the acquisition. In cross-border acquisitions, peer companies are the main target of external decision-making. At the same time, the decision-making behavior of Chinese enterprises acquire enterprises in the target enterprise’s country is also an important reference. Therefore, if cross-border acquisitions are peer-acquisition behavior or non-peer Chinese enterprises in the host country to implement the acquisition, the control decision after acquisition and its performance will become the driving force for companies to choose control model. Then, we propose the following propositions:

P1: Isomorphic behavior of organization based on regional and industry characteristics has an influence on the control strategy after cross-border acquisition.

Secondly, we analyze the relationship between enterprise's path dependence behavior and the selection of control model after acquisition from the perspective of internal legitimacy. Path dependence is the inherent mechanism of the enterprise's previous historical experience. It is argued that path dependence is behavior convention, social relations, and cognitive structures established around a specific system [7]. Path dependence will encourage companies to tend to repeat successful practices in similar situations [8], which gives firms greater internal coherence. According to path dependence theory, in cross-border acquisitions, two behavioral tendencies will have an impact on decision making: The first is related to structural inertia [9]. As the enterprise built a certain institutional framework, under this framework, the business will continue in the intended mode, and then produce a similar decision-making model. In order to obtain internal legitimacy, enterprises tend to make similar decisions based on organization's predestined system and mechanism. Therefore, the tendency of the firm's integration will affect the control decisions after its acquisition. The second is related to cognitive inertia [10], which emphasizes the role of people through the organization, that is, the enterprise's previous historical model is embedded in the individual's mind, and thus affects the future development of enterprises. The acquisition and international experience of corporate executives will directly affect its control decision-making after cross-border acquisition. Therefore, we propose the following propositions:

P2: Driven by internal legitimacy, structural inertia and cognitive inertia affect the control decision of Chinese enterprises after cross-border acquisition.

Institutional Distance and Post-Acquisition Control

For cross-border acquisitions, a significant factor in the effective implementation of control is the regional institutional distance. It is suggested that the regional institutional distance can be measured from the differences between two regional institutional environments, so it can be considered from three levels [3]: the regulative level, the normative level and the cognitive level. The institutional distance of regulation emphasizes differences in law and politics, the institutional distance of norm emphasizes differences in market or industry values and standards, the institutional distance of cognition emphasizes the differences in common beliefs, behavioral logic and other social common cognitive. From the point of view of the regulative institution, due to differences in regional institution, enterprises need to learn various regulations and policies of the
host country, as well as government rules. It may be fatal to ignore the regulatory factors. From the point of view of the normative institution, the greater the distance of regional institution, the more understanding of different industry rules, industry norms, industry ethics, the higher learning costs and time costs. From the point of view of cognitive institution, the trust of up-and-down-stream enterprises, the acceptance of products and the awareness of brands are in need of process. The greater the institutional distance, the more time and cost will be required for this process, and thus actually increases the cooperative costs of cross-border acquisitions. Therefore, when the Chinese enterprises implement different control strategies in cross-border acquisition, if the institutional distance is small, control decision-making after cross-border acquisition can get higher legitimacy, so the more likely to form a common strategic interests, the higher the degree of support that may be obtained, the more conducive to the unified and rapid decision-making, and it will reduce the internal potential conflicts and response to market opportunities rapidly, the relationship between control degree and performance is strengthened; When the institutional distance is large, if firms seek higher degree of control at this time, it will be challenging to both external legitimacy and internal legitimacy, affecting the agreement between the acquirer and its stakeholders, leading to the integration barrier after the acquisition, which has a negative impact on the achievement of the acquisition target.

Then we propose the following proposition:

P3: Regional institution distance has a moderating influence on the relationship between control strategy after cross-border acquisition and acquisition performance.

Model of Post-Acquisition Control in Cross-Border Acquisition

Cross-border acquisition is an important approach for Chinese enterprises to realize technology innovation, expand market scale and enhance international competitiveness [6]. Through cross-border acquisition, help enterprises to obtain foreign advanced technology, effective learning and integration, and further promote their own technological innovation, enhance the international competitiveness of enterprises, while promoting domestic related industries and technological innovation to enhance the domestic industry in the global value chain status. But control strategy after cross-border acquisition is the key factor and even the decisive factor to achieve the desired goal. Based on the above discussion, combined with the relevant research at home and abroad, this paper constructs the relational model between control strategy and performance after cross-border acquisition of Chinese enterprises, as shown in Figure 1.

![Figure 1. Model of Post-Acquisition Control in Cross-border Acquisition.](image-url)
This paper discussed the control strategy and acquisition performance from the perspective of legitimacy. According to the above discussion, this paper presents the following views: (1) Isomorphic behavior of organization driven by external legitimacy influence the control strategy after cross-border acquisition of Chinese enterprises; (2) Path dependent behavior driven by internal legitimacy influence the control strategy after cross-border acquisition of Chinese enterprises; (3) Institutional distance under the action of legitimacy has a moderating effect on the relationship between control strategy and acquisition performance of cross-border acquisition.

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Reference


