

UPGRADING WITHOUT FORMAL INTEGRATION IN M&A: THE ROLE OF SOCIAL INTEGRATION

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ABSTRACT

Research summary: By adopting a phenomenon-based research approach, we examine the case of an emerging market supplier upgrading its position in the automotive global value chain (GVC) through the acquisition of a technologically advanced firm from a developed market. Drawing on GVC and social integration literature, we explore the role of social integration adopted by the emerging market acquirer to achieve upgrading through acquisition. We develop a conceptual framework where we explain the different social integration mechanisms that emerging market multinationals employ before and after acquisitions to achieve upgrading.

Managerial summary: When analyzing an emerging market firm acquiring a developed market firm we found that social integration is a key factor that enables knowledge transfer, particularly if no formal or structural integration occurs. This suggests that the development of mechanisms to facilitate strong socially integrated relationships with acquired firms is central for such type of acquisitions. Our research shows that emerging market firm managers need to put in place combinations of social integration mechanisms during different phases of the acquisition. Environmental and cognitive social integration mechanisms are crucial for gaining initial legitimacy. Furthermore, affective social integration is important for initiating process and functional upgrading, while cognitive social integration mechanisms become important for initiating inter-sectorial upgrading.

Keywords: Mergers and Acquisitions; Upgrading; Social Integration; Emerging Market; China; Global Value Chains

1. INTRODUCTION

There has been a continuous increase in knowledge-seeking foreign direct investment from emerging market (EM) multinational enterprises (EMNEs) into developed markets (DMs) (UNCTAD, 2016) as a strategy for upgrading from low-value to high-value capabilities and activities (Gereffi, 1999; Mudambi, 2008). Upgrading has been a key element of the global value chain (GVC) literature and has been identified as a key factor influencing increased profits for EMNEs (Herrigel, Wittke, and Voskamp, 2013; Kumaraswamy, Mudambi, Saranga, and Tripathy, 2012). Despite increased knowledge-seeking foreign direct investment by EMNEs into developed markets and its relevance to upgrading, questions remain around how this happens if the entry mode is acquisitions (Hansen, Fold, and Hansen, 2016; He, Khan, and Shenkar, 2018), and there exists only a light-touch integration (Liu and Woywode, 2013) or no formal integration (Torres de Oliveira and Rottig, 2018) between the firms, which is different from integration approaches adopted by developed market multinational enterprises (DMNEs) (Cartwright and Schoenberg, 2006). As such, we ask the question: ‘How can an emerging market firm upgrade through an acquisition of a developed market firm without formal integration?’

Despite the growing international presence of EMNEs, limited attention has been given to their GVC upgrading and underlying knowledge flows (Cano-Kollmann *et al.*, 2016; Cuervo-Cazurra and Rui, 2017; He *et al.*, 2018; King, Slotegraaf, and Kesner, 2008). This is a significant omission, as knowledge flows within EMNEs that acquire DM firms may be fundamentally different from knowledge flows within DMNEs having subsidiaries in emerging or other developed markets. In both instances, the underlying assumption is that internationalization to DMs entails gaining superior knowledge capabilities (Luo and Tung, 2007) and thus would have a knowledge flow direction from the most competent (DM) to the less competent (EM). However, differences in the organizational context in terms of ownership, internal capabilities, and location of headquarters (in EMs rather than DMs) are likely to have

an impact on how this knowledge flow and upgrading happens (Awate, Larsen, and Mudambi, 2015; Deng, 2009). Deng (2009), for example, found that EMNEs tend to acquire strategic assets in international expansion, proposing a model of resource-driven motivation for overseas acquisitions by these firms. However, how the focal firm transforms the resources acquired remains a black box. This should not be surprising, since an international acquisition of a DMNE as a strategy for upgrading by EMNEs is still a rare phenomenon that is very much understudied (Hansen *et al.*, 2016; He *et al.*, 2018). Such acquisitions for upgrading come with associated challenges, for example culture differences (Hansen *et al.*, 2016), liability of emergingness (Madhok and Keyhani, 2012), weakness in technical expertise (Awate, Larsen, and Mudambi, 2012; Lebedev *et al.*, 2015), difficulties of absorptive capacity (Cohen and Levinthal, 1990; Zahra and George, 2002), and lower managerial capabilities (Ramamurti, 2012).

Given these different capabilities and challenges that happen in an EMNE–DMNE cross-border acquisition, coupled with intention of the firms to upgrade, past research has recognized that a potential way to untangle such constraints is through inter-organizational relationships (Björkman, Stahl, and Vaara, 2007). Not surprisingly, recent research (Cuervo-Cazurra and Rui, 2017; Hansen *et al.*, 2016; He *et al.*, 2018) has called for more attention to explore the role of inter-organization relationships in EMNE upgrading. With similar reasoning, we decided to look at the social integration literature (Briel, Schneider, and Lowry, 2019; Cohen and Bailey, 1997; O’Reilly, Caldwell, and Barnett, 1989; Van der Vegt, 2002) as it does not imply a formal integration but, and at the same time, might function as the integration mechanism that supports focal firms to upgrade.

In the case of EMNEs, social integration becomes crucial for multiple reasons. Firstly, prior research notes the prominence of social mechanisms, such as *guanxi* in the case of China, to bridge the barriers associated with institutional voids and to overcome the EMNE’s lack of

legitimacy in the eyes of the DMNE (Chatterjee and Sahasranamam, 2018; Park and Luo, 2001). Secondly, as acknowledged earlier (Kumaraswamy *et al.*, 2012; Luo and Tung, 2007), there is a significant gap in the technical expertise of EMNEs in comparison to DMNEs. In order to overcome this knowledge gap, social integration mechanisms are considered important (Enkel, Groemminger, and Heil, 2018). Thirdly, EMNE–DMNE relationships involve significant cultural differences, which increase the complexity of the linkage (Grøgaard and Colman, 2016; Hansen *et al.*, 2016). For instance, culture studies have extensively discussed (e.g., Paul and Shrivastava, 2016) the differences in the role of national culture in inter-organizational relationships. It is recognized that social integration mechanisms are particularly effective *to glue* together such culturally differentiated inter-organizational relationships (Clark and Geppert, 2011). Despite the importance of social integration mechanisms, limited research has gone into exploring their role in inter-organizational relationships and the knowledge transfer that occurs within the EMNE–DMNE relationship. Therefore, it is important to explore in greater depth the social integration mechanisms that EMNEs employ in order to achieve upgrading.

We use two complementary literature streams to explore this research gap. We utilize the GVC literature (Gereffi, 1999; Gereffi, 2005; Sturgeon, Van Biesebroeck, and Gereffi, 2008) to ground the closely consolidated nature of the automotive GVC and highlight the associated barriers to becoming a lead supplier. We also use the GVC literature to discuss different types of upgrading and their relevance for EM firms. Second, we used the social integration literature (Briel *et al.*, 2019; Cohen and Bailey, 1997; O’Reilly *et al.*, 1989; Van der Vegt, 2002) as the potential explanation for overcoming the lack of formal integration aiding EMNEs to achieve upgrading through acquisitions.

In order to examine the social integration mechanisms, we utilize the case of a recent Chinese acquisition (EMNE) of a German firm (DMNE). Before the acquisition, both firms’

revenues were much lower than after the acquisition, thus indicating the effectiveness of the acquisition and upgrading mechanisms. Our results demonstrate that multiple types of social integration mechanisms, namely environmental, affective, cognitive, and behavioral (Briel *et al.*, 2019), were put in place between the two firms, which ensured different types of upgrading and the effectiveness achieved by the Chinese firm.

This paper makes multiple contributions. Firstly, we add to the GVC and upgrading literature by combining it with social integration literature to develop a conceptual framework that explains the different social integration mechanisms that EMNEs employ during the acquisition process to achieve upgrading. Thus, we respond to calls for future research to understand the process aspects of inter-organization integration in the EMNE–DMNE relationship (Cuervo-Cazurra and Rui, 2017; Hansen *et al.*, 2016; He *et al.*, 2018; Hensmans and Liu, 2018). Secondly, we add to the literature on knowledge management within the merger and acquisition (M&A) context (Awate *et al.*, 2015; Ciabuschi, Forsgren, and Martín, 2015; Hensmans and Liu, 2018). We find that through social integration mechanisms knowledge transfer is less likely to be opportunistic and highlight the knowledge search processes done by the EMNE headquarters during the different phases of an acquisition process. Thirdly, we contribute to M&A literature (Cartwright and Schoenberg, 2006; Hansen *et al.*, 2016; Herrigel *et al.*, 2013) by employing a ‘phenomenon-based research’ (Doh, 2015) approach to analyze a rarely witnessed phenomenon of an EMNE becoming a lead firm globally through a DMNE acquisition, discussing how social integration rather than formal integration mechanisms supported its upgrading.

2. LITERATURE REVIEW

2.1. Upgrading

Gereffi (2005, p. 171) defines industrial upgrading as ‘the process by which economic actors—nations, firms, and workers—move from low-value to relatively high-value activities in global production networks.’ The ‘smile’ curve of value creation in GVCs suggests that production-

oriented activities account for lesser value in comparison to pre-fabrication stages, like product conceptualization or research and development (R&D), and post-fabrication stages, like sales or marketing (Mudambi, 2008). Mudambi (2008) also highlights that there are standardized and specialized value-adding activities within GVCs. Standardized activities are repetitive and commoditized in nature, and can be performed by many firms with limited knowledge resources. Specialized activities require superior R&D, manufacturing, and/or marketing knowledge.

Upgrading is considered a key determinant of increased profits for EMNEs, including automobile suppliers (Choksy, Sinkovics, and Sinkovics, 2017; Kumaraswamy *et al.*, 2012). The key assumption underlying the argument being that firms that have more specialized resources and capabilities will be able to better negotiate a stronger position in the value chain, in turn leading to improved financial performance.

Humphrey and Schmitz (2002) developed a typology of industrial upgrading, highlighting four categories: (i) *process upgrading*, which involves the reorganization of production activities to be more efficient in terms of transformation of inputs and outputs; (ii) *product upgrading*, which involves shifting towards more sophisticated products; (iii) *functional upgrading*, which involves an increase in skill level through the acquisition of new functions (or abandoning old ones); and (iv) *inter-sectoral upgrading*, which involves the application of competencies developed from one function of the value chain to a different section.

Some scholars argue the presence of an upgrading trajectory involving a transition which begins from process, continues to product, then moves on to functional upgrading, and possibly even ends with inter-sectoral upgrading (Hobday, 1995; Kaplinsky and Morris, 2003). This view has been criticized by more recent research for its rigid hierarchical nature (Pietrobelli, 2008). It is also argued that functional downgrading can also be advantageous in

some instances for increasing competitiveness (Ponte and Ewert, 2009). We concur with these criticisms, and consider the non-hierarchical view of upgrading in our conceptualization (Hansen *et al.*, 2016; Pietrobelli, 2008; Ponte and Ewert, 2009).

Process upgrading involves improved efficiency and reliability of the production process as a result of improved methods and technologies (Humphrey and Schmitz, 2002). For instance, process upgrading could emanate from rationalization of production, a better work organization, or higher labor productivity (Rossi, 2013).

Product upgrading involves a move towards higher unit-value products which are often more sophisticated. In the automobile sector, this could mean moving from the production of basic parts towards their assembly into components, and from the production of components to their assembly into modules (Pavlínek and Ženka, 2011). It could also be an expansion of business via product diversification or differentiation and via consumer differentiation (Yoruk, 2019).

Functional upgrading involves a shift away from low value-add activities, like assembly and low-end production, towards higher value-add activities, like high-end manufacturing, design, and branding (Gereffi, 1999; Mudambi, 2008). It could also be in the form of diversification of business functions, development of new functions or creation of more advanced functions (Burger, Jindra, Marke, and Rojec, 2018; Sass and Szalavetz, 2013). In order to achieve functional upgrading, a higher level of skills in the workforce is required (Humphrey and Schmitz, 2002). It also involves an increased investment towards advancing other functions like engineering, training, design, and testing (Jean, 2014; Sass and Szalavetz, 2013; van Tuijl, 2014).

Inter-sectoral upgrading involves firms moving to new sectors with relatively higher gains using the advantages gained through knowledge and technological capabilities

(Humphrey and Schmitz, 2002). For example, many firms in Taiwan used the expertise in producing televisions to make monitors and computer equipment.

In recent times there has been substantial interest in EMNE literature on upgrading. Jean (2014), for example, explores the effect of governance mechanisms and internal resources influencing functional upgrading in Chinese technology ventures. Pananond (2016), on the other hand, uses a power repositioning argument to suggest that EMNEs improve their power position by taking more control of the chain as part of the upgrading process. Herrigel *et al.* (2013) outlines multiple phases of Chinese firm upgrading from a historical perspective. In particular, they outline how, initially, Chinese firms upgraded by apprenticing themselves to their foreign customers and through integration in transnational communities of practice, whereas, more recently, the focus has been on more sophisticated operations and how Chinese and foreign players learn from one another. Other scholars echo this recent trend of EMNE upgrading through learning, either through networks with foreign players (Yoruk, 2019) or through foreign acquisitions (Hansen *et al.*, 2016; He *et al.*, 2018). It is argued that a process perspective needs to be adopted to understand how this upgrading through foreign acquisition develops in the case of EMNEs (Hensmans and Liu, 2018). For instance, Burger *et al.* (2018), in a study of firms from Central and Eastern European countries, found that the functional upgrading effect on value addition in subsidiaries varies over different phases of foreign investor involvement. In this paper we build on this temporal view to explore the role of social integration mechanisms at different phases of acquisition and their translation into firm upgrading.

2.2. Overview of automobile global value chains

A GVC refers to the range of activities carried out on a global scale by firms and workers to bring a product from its conception to end use and beyond (Gereffi and Fernandez-Stark, 2011). The automobile industry is a global industry in terms of its product usage (Humphrey and Memedovic, 2003; Paul, 2018); however, its production tends to be concentrated into

specialized clusters in certain regions of the world (Sturgeon *et al.*, 2008), which has had a lot of political, industrial, and social importance. Given the political, industrial, and social importance, the automobile industry comes under significant government pressure across its value chain. Automobile assemblers have felt pressure to have their manufacturing plants established in the main sales regions (U.S., Canada, and Europe) and, more recently, in developing regions such as India and China. Such pressures have been felt by suppliers too, compelling them to source within firms based in such markets (Humphrey, 2003; Sturgeon and Lester, 2004).

The recent decades have seen multiple market consolidation moves by automobile assemblers through international M&As and strategic alliances (Dicken, 2007). Some examples of consolidation within assemblers include Volvo-Eicher, Peugeot-Citroen, and Renault-Nissan. In the process of consolidating and streamlining activities, assemblers have adopted a strategy of passing on multiple production functions to suppliers, while retaining the most added-value parts (marketing, sales, product innovation, and others) (Sturgeon and Lester, 2004).

A close integration between assemblers and suppliers has also begun to develop in recent years, leading to higher dependencies and long-term orientation based on trust (Nolan, 2001). This has also led to a smaller pool of chosen suppliers and a prioritization on selecting suppliers that can provide a larger portfolio of products (Humphrey and Memedovic, 2003). Such close interdependencies mean the establishment of supplier facilities near their clients (assemblers), creating automobile clusters (Humphrey and Memedovic, 2003). Another reason for this geographical proximity is the presence of high levels of tacit knowledge within the value chain (Amit and Schoemaker, 1993; Kogut and Zander, 1992; Leonard and Sensiper, 1998). Thus, suppliers that were not capable of integrating with the automobile GVC were destined to remain small and regional, with low levels of long-term success (Sturgeon and

Lester, 2004). In many instances, leading assemblers decided to enter a new market, demanding their first-tier suppliers set up development sites nearby (Sturgeon and Florida, 2004). Suppliers of lighter and more standard parts were able to keep their distance in order to take advantage of low labor costs, economies of scale, and raw material costs (Sturgeon and Van Biesebroeck, 2011).

2.2.1. Automobile global value chains and emerging markets

As mentioned earlier, when a transnational assembler starts production or introduces a new model in an EM like China, the preferred choice of supplier rests with those that the assembler uses in other geographic regions (Humphrey and Memedovic, 2003). This ensures that the assembler receives components that are identical to the ones they use elsewhere, with assurance of quality standards. In cases where the globally selected supplier cannot or does not want to supply the module or the component locally, the second preferable global supplier is to be used.¹ Only as a last option would the assembler use a local supplier from China, either under license or with its own design, due to the lack of trust in local suppliers. The alternative to the abovementioned priority order would mean transnational assemblers working with a large pool of local suppliers with knowledge of homologation processes, design audits, quality tests and systems, verification of sub-suppliers, and so on (Humphrey and Memedovic, 2003). Such verifications are difficult even in developed countries and, therefore, in EMs are quite a Herculean mission. Furthermore, Chinese suppliers lack the standard requirements of a top-tier supplier in terms of innovation, financial capabilities, synchronized just-in-time production, and complexity (Holweg, Luo, and Oliver, 2009). Chinese suppliers only have expertise to develop ‘...simple, standardized, and slow changing components such as bearings where there is a wider market that support[s] adequate scale economies’ (Sturgeon and Lester, 2004: 29).

¹ Normally, transnational assemblers have more than one firm ready to produce a specific component, even if only one usually supplies it for a specific model globally. See Humphrey and Memedovic (2003) for a more thorough discussion on this matter.

Owing to these reasons, the emergence and growth of local automotive suppliers within EMs is very difficult, especially within the first-tier level. In rare instances where Chinese suppliers emerge to become first-tier or second-tier suppliers, they are likely to merge with a larger transnational supplier (Humphrey and Memedovic, 2003). In order to engage the academic view with the reality in China, we interviewed a senior official from the China Automotive Technology and Research Center (CATARC), the most important official authority on this matter, who endorsed the view:

...they [domestic suppliers] do not have relevance when compared with purely foreign or foreign JVs [Chinese-foreign joint venture] companies. It is very difficult for a Chinese firm to enter into the automotive industry. The big firms are using always the same international suppliers elsewhere, including in China. We do not see Chinese firms being able to enter in this industry. (CATARC Senior Official)

van Tuijl, Carvalho, van Winden, and Jacobs (2012) highlight that R&D centers established by global suppliers in China are usually limited to design adjustments and development, the main testing and development taking place in home countries. This transpires due to China's legal system and the notorious lack of confidentiality among joint venture (JV) partners, resulting in similar cars being manufactured in the Chinese market.

These aspects of the Chinese business system mean that Chinese suppliers are presented with two alternatives: 1) joint efforts with transnational suppliers through JVs, mergers, or alliances; or 2) investing into regional production centers and remaining as regionally-specific suppliers (Thun, 2001). Interestingly, international acquisitions by Chinese firms are not referred to by Thun (2001) as a possible alternative. Given the highly integrated transnational assembler-supplier network within the automobile industry, coupled with the institutional constraints within the Chinese business system, our case of an EMNE becoming a global lead firm through its acquisition of a DMNE is a rare phenomenon. Such an acquisition is likely to pose challenges, such as cultural differences between firms (Hansen *et al.*, 2016), liability of emergingness (Madhok and Keyhani, 2012), lack of technical expertise of the

EMNE acquirer (Awate *et al.*, 2015; Chatterjee and Sahasranamam, 2018), and differences in management capabilities (Ramamurti, 2012). Therefore, we use social integration literature to explore the different mechanisms that the EMNE employed to achieve upgrading in order to become a first-tier global supplier.

2.3. Social integration

Literature on inter-organizational integration discusses three key mechanisms: centralization, formalization, and social integration (Birkinshaw and Morrison, 1995; Ghoshal and Nohria, 1989; Grøgaard and Colman, 2016). In centralized integration, there are high levels of control in decision-making within the headquarters. Formalization involves developing standardized common procedures and processes between organizations. Social integration is a less-formal approach, characterized by developing shared goals and values. Research on DMNE inter-organizational relationships has highlighted the importance of both structural integration (i.e. centralization and formalization) and social integration (Birkinshaw, Bresman, and Hakanson, 2000). However, in the EMNE–DMNE inter-organization relationship, less structural (light-touch integration; Liu and Woywode, 2013) or no formal integration (Torres de Oliveira and Rottig, 2018) is observed.

Social integration is defined as ‘the degree to which group members are psychologically linked or attracted towards interacting with one another in pursuit of a common objective’ (Harrison, Price, and Bell, 1998: 96). Social integration is considered to be a different construct from social capital (Briel *et al.*, 2019), as the latter refers to actors’ structural position in organizational networks, while the former is about participation in such networks. In the context of inter-organizational knowledge transfer, social integration refers to the extent to which actors participate and collaborate. Social integration mechanisms provide the means to facilitate shared meaning and values between organizational actors (Peters, Pressey, and Johnston, 2016; Todorova and Durisin, 2007). Such a shared understanding helps to reduce

cognitive costs and efforts, facilitating knowledge transfer between organizations (Lewin, Massini, and Peeters, 2011; Todorova and Durisin, 2007).

Recent research conceptualizes social integration as a multi-dimensional construct, highlighting different underlying characteristic mechanisms (Briel *et al.*, 2019). The four key dimensions include environmental, affective, cognitive, and behavioral social integration (Knight and Eisenkraft, 2015; O'Reilly *et al.*, 1989; Van der Vegt, 2002). Although the four dimensions are interrelated, they can contribute independently to social integration (Briel *et al.*, 2019) and can thus independently influence the different forms of upgrading. Since the social integration mechanisms are mostly processes and routines, they are not always directly observable (Hedström and Ylikoski, 2010). However, there are some examples of integration mechanisms that contribute to each.

According to Briel *et al.* (2019: 18), *environmental social integration* involves the 'availability of and access to resources that enable group members to interact (e.g., time, location, equipment).' Members of the group are more likely to collaborate when the environment offers the resources needed to support it. Some of the mechanisms include conferences, shared workspaces, and visits to each other's company locations (Collins and Clark, 2003; Wittenbaum and Stasser, 1996). The various characteristics of the environment also influence the environmental social integration; for instance, the time that the environment offers group members to interact (Wittenbaum and Stasser, 1996). A greater amount of time will help to develop deeper conversations and more knowledge exchanges. Another aspect of environmental characteristics is the spatial aspect (Straub and Karahanna, 1998). For instance, co-location or visits to each other's company locations offer the possibility of richer information exchange through face-to-face interactions, as opposed to exchanging information over emails.

Affective social integration is about ‘the presence of positive feelings among group members when interacting’ (Briel *et al.*, 2019: 18). Group members will show greater willingness to work together when they have positive feelings for each other (George and Brief, 1992). Initiatives such as open forums, social gatherings, and mentoring programs are demonstrated to improve affective social integration (Jackson, Joshi, and Erhardt, 2003; Van der Vegt, 2002). Social gatherings, for instance, offer an opportunity for individuals to share their beliefs and experiences with each other, which strengthens cohesion and motivates individuals to share knowledge (Liu, Hernandez, and Wang, 2014). When group members have positive feelings for each other, it reduces the risk of interpersonal conflict, improves group trust, and thereby facilitates greater sharing of knowledge (Reinholt, Pedersen, and Foss, 2011). Positive affect not only influences the willingness to share knowledge but also its assimilation and exploitation, leading to the development of new products and services (Chirico and Salvato, 2016).

Cognitive social integration refers to ‘the existence of shared frames of reference, such as a common vocabulary, among group members’ (Briel *et al.*, 2019: 18). When members of a group have a shared frame of reference, their knowledge exchange will be more efficient and effective. The use of shared training programs, participation in interest groups, and job rotation are considered beneficial for improving cognitive social integration (Gupta and Govindarajan, 2000; Peltokorpi, 2015). In the case of shared training, all the group members will have shared codes and vocabularies (Peltokorpi, 2015), helping them to easily transfer knowledge. Job rotations involve the lateral transfer of employees within the organizational units. Cohen and Levinthal (1990) argue that job rotation improves the effectiveness of knowledge absorption as it promotes complementarity of experience within the firm.

Behavioral social integration involves ‘the existence of interrelated goals that enable group members to coordinate their interactions’ (Briel *et al.*, 2019: 18). Chances of

collaboration between group members increase when goals are more easily achieved through the support of other group members. For example, joint task forces, quality circles, shared success measures, and joint decision-making structures aid in working with interrelated goals and improving behavioral social integration (Koufteros, Cheng, and Lai, 2007; Simsek, Veiga, Lubatkin, and Dino, 2005). In the case of joint decision-making structures, individuals and groups discuss their expectations, each other's problems, and coordinate joint actions (Simsek *et al.*, 2005). Quality circles involve group of employees who meet regularly to discuss and solve problems around a specific work area, such as quality or productivity (Vega-Jurado, Gutiérrez-Gracia, and Fernández-de-Lucio, 2008). These joint efforts foster greater exchange of knowledge between the group members, encourage joint problem solving between them, and coordinate their actions.

2.4. Social integration for upgrading through acquisition

The importance of social integration mechanisms like personnel rotation, short-term visits, joint training, and others, are highlighted both in the research on control and coordination of multinational companies in general (Bartlett and Ghoshal, 1989) and on acquisitions in particular (Birkinshaw *et al.*, 2000; Larsson and Lubatkin, 2001). Larsson and Lubatkin (2001) found that the use of social integration mechanisms improves inter-unit trust and the development of a shared vision, objectives and cultural values. The involvement of acquired employees in the discussions on post-acquisition management improves inter-unit social integration (Kim and Mauborgne, 1998; Hubbard and Purcell, 2001).

Prior research has shown that the use of social integration mechanisms leads to the creation of interpersonal networks and greater communication between the organizational units involved (Ghoshal, Korine, and Szulanski, 1994). This increased interaction helps organizations to identify external knowledge, assimilate and combine it with prior knowledge, and apply the newly created knowledge (Cuervo-Cazurra and Rui, 2017; Enkel *et al.*, 2018; Pihlajamaa, 2018). It is also observed that such mechanisms aid in transferring individual-level

learning to the organization level (Lane, Koka, and Pathak, 2006)—especially in dealing with difficult-to-transfer knowledge (Uzzi and Lancaster, 2003). Social integration mechanisms also enable individuals with diverse knowledge to contribute to transforming organization knowledge (Hotho, Becker-Ritterspach, and Saka-Helmhout, 2012). Social integration mechanisms also influence resource sharing and transfer across units (Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998).

There is also strong evidence suggesting that in organizations characterized by high levels of social integration, employees from different organizational units are likely to exhibit behaviors that are in the interests of the overall organization (Bresman, Birkinshaw, and Nobel, 2010; Kostova and Roth, 2003; Stahl and Voigt, 2008). Social integration aids with handling cultural differences between the organizations at different levels: national, organizational, professional, functional, and industry (David and Singh, 1994). For instance, in the case of EMNE–DMNE acquisition, one might expect that social integration mechanisms could help in dealing with cultural dichotomies, like foreigner versus local and/or West versus East (Björkman *et al.*, 2007).

In summary, through the facilitation of knowledge transfers, resource transfers, and creation of common norms between organizations, social integration mechanisms are likely to facilitate upgrading. Although the outcomes of social integration process are more uncertain and difficult to identify compared to formal integration (Grøgaard and Colman, 2016), they are considered crucial for knowledge transfer and the creation of norms and values that guide organizational action (Easterby-Smith, Graca, Antonacopoulou, and Ferdinand, 2008). However, the extant literature has been silent on identifying the role of social integration mechanisms in EMNEs' acquisition of DMNEs and, more importantly, on how these mechanisms produce different types of upgrading that are critical for EMNEs and their objectives with acquiring DMNEs. Given the uncertainties and difficulties associated with

objectively quantifying the impact of social integration processes on upgrading, we require the use of qualitative research designs, as employed in this research.

3. DATA AND METHODS

3.1. Research design

Single case study designs are appropriate for exploratory research involving a complex, contemporary, and under-examined social phenomenon which is difficult to disentangle from its context (Eisenhardt, 1989; He *et al.*, 2018; Welch and Piekkari, 2017). Considering that we adopt ‘phenomenon-based research’ (following Doh, 2015), and are exploring a relatively uncommon (hence, under-explored) phenomenon of an EMNE acquiring and successfully integrating a DMNE to achieve functional upgrading and increased market performance, a single case study research design is appropriate. As Hobday and Rush (2007) highlight, our aim is to establish robust findings to build theoretical grounds for further studies.

In order to undertake an in-depth single case study design of an acquisition it is important to have high-level access to both the acquirer and acquired firms (Easterby-Smith, Thorpe, and Jackson, 2012; Symon and Cassell, 2012). This was quite a challenge given the notorious difficulty of accessing Chinese firms (He *et al.*, 2018).

At the time that this research project started, the first and third author were living in Ningbo, China, and had the notion that general industrial equipment and machinery, as an industry, are not necessarily great examples of global competitive dynamics; as such, we decided to attempt to gain access to firms within the automotive industry. In Ningbo there were two important firms investing in developed economies within the automotive industry: Ningbo Huaxiang Electronics and Joyson Investment Holding. After spending several months of research and networking, we finally managed to gain access to board members of Joyson Company Ltd. Particularly important were the several meetings with Joyson’s Chief Executive Officer (CEO), which paved the way to an agreement to get full access to the firm. This gave

us a rare opportunity to conduct ‘elite interviews’ (Welch, Marxchan-Piekkari, Penttinen, and Tahvanainen, 2002) with senior executives in both the acquirer (China) and subsidiary (Germany), including board members and key senior managers, producing rich primary data (Torres de Oliveira and Figueira 2018a). In addition, we also obtained access to company reports and non-confidential information, and were present in several high-level meetings, which allowed us to gather relevant secondary data.

3.2. Study firms

Joyson Company Ltd, founded by Wang Jiafeng (Jeff Wang), was established in 2004 in Ningbo, Zhejiang Province, China. This province is home to the largest concentration of non-state-owned firms in China—Joyson being one of them. In 2005, Joyson set up an automotive component manufacturing plant in Ningbo that started to supply simple components to Chinese assemblers Huacheng and Chery. By the end of 2006, Joyson began getting international orders for the same simple components from transnational assemblers, including Volkswagen (VW) and General Motors (GM). During the 2007–2008 period, Joyson made a number of improvements with regards to R&D, human resources, and quality control. These helped Joyson to pass quality tests and become a local first-tier supplier for transnational assemblers in the Chinese market. Despite becoming a first-tier supplier to global assemblers in China, Joyson’s CEO knew that the company had to achieve GVC upgrading to ensure competitive advantage in the local and international markets due to the low-end products that they were producing, which entail high substitutability, low profits, and high competition (Porter, 1990).

Preh GmbH was a global first-tier automotive² electronic supplier located in Bad Neustadt an der Saale, about 145 km (90 miles) east of Frankfurt in Germany. They had two main business units: products related to interactions between humans and machines; and products related to e-mobility, such as batteries for electric or hybrid vehicles. Joyson’s CEO

² Global first-tier suppliers, as per Sturgeon *et al.*'s (2008) definition, are first-tier suppliers with a global presence—not only serving regional manufacturers.

met with his Preh counterparts in early 2007 to explore investing in the company. Subsequently, it took three years for Joyson to convince Preh's management and shareholders of the benefit of integrating their efforts, with several visits by senior executives to China and Germany. In August 2010, both firms decided to form a JV targeted exclusively at the Chinese market. The objective of the JV was to produce Preh's products in China to meet the requirements of transnational assemblers in China that were already global clients of Preh. Nonetheless, since their first meeting, Joyson's objective was to ultimately acquire Preh. In April 2011, Joyson acquired a majority (74.9%) stake in Preh, with the right to acquire the remaining 25.1% later on. By the end of 2012, after being listed on the Shanghai stock exchange, Joyson acquired the remaining 25.1% of Preh. Figure 1 illustrates a timeline of these activities.

<Figure 1 around here>

Another aspect that makes this case so unique and interesting relates to the fact that each company is performing better financially since the acquisition in comparison to the pre-acquisition phase. In Figures 2 and 3 we can see the exponential growth that both companies experienced after the acquisition. Even excluding Preh from Joyson's consolidated account, Joyson has been growing its revenues faster than automotive sales in China. The same occurred for Preh, in which it has enjoyed an average growth of more than 21% per year—much higher when compared with the pre-acquisition period, even if we do not consider the period between 2008 and 2011 due to the global financial crisis. Joyson increased its revenues from €0.5 million in 2006 to €3.5 billion in 11 years. Such massive growth has been enabled by the success of international acquisitions and the quality at which they have been managed.

<Figure 2 around here>

<Figure 3 around here>

3.3. Data collection

As mentioned above, the initial conversations concerning Joyson investing in Preh began in 2007. Therefore, we focus on the period of 2007–2017, with data collection involving multiple visits to both the acquirer and subsidiary sites. A 10-year period is considered sufficiently long to uncover any upgrading and different integration mechanisms underlying the change. To uncover similar mechanisms, prior research has employed time-periods of five years—for example, Birkinshaw, Ambos, and Bouquet (2017) investigated boundary spanning activities—and seven years—for example, He *et al.* (2018) explored learning processes in upgrading. Within the 10-year period, the four-year period of 2007–2011 is considered the pre-acquisition phase with the subsequent period being the post-acquisition phase.

We began by conducting semi-structured interviews (Easterby-Smith *et al.*, 2012) with members of the management boards of the involved companies, given we consider them as key informants who have knowledge on the strategic decisions related to our research interest. We followed this by undertaking interviews with top-level executives, key senior managers, and lower-level managerial staff members. We continued our interviews until the information obtained from additional interviewees resembled that which we had already obtained (Eisenhardt, 1989). Hence, the number of interviews considered was a function of theoretical saturation (Glaser and Strauss, 1967). We ended up conducting 27 interviews in total, of which 17 were with board members and senior executives of Joyson (Chinese acquirer) and Preh (German target). The remaining 10 were with other senior managers and managerial staff. We conducted the first set of interviews in China during October and November of 2013 and July of 2014. This was followed by interviews in Germany in November 2014. Subsequently, the third and fourth sets of interviews aimed at clarifying information and confirming explanations in China between April and May of 2015 and May of 2017, respectively. Thus, our primary data collection period lasted over four years, which is comparable to other case study research (Birkinshaw *et al.*, 2017; He *et al.*, 2018). Tables 1

and 2 provide a summary of the interviews that represent 30 hours of discussion and more than 500 pages of transcripts. The interviews were conducted in either Chinese or English. We did verbatim translations (without correcting for grammatical or language-related errors) of interviews in Chinese to English to retain the meaning of conversations. We also had different individuals professionally translate the interviews and transcripts in order to increase the reliability and accuracy of the data. The semi-structured interviews followed a pre-established guide, with questions designed to help us direct the conversation towards the topics of interest, namely the success factors that allowed Joyson to achieve its high financial performance and what role Preh played in such results. The semi-structured interview protocol can be found in the Appendix.

<Insert Tables 1 and 2 about here>

In order to analyze the data in a systematic way, we employed well-established qualitative data analysis protocols, such as content analysis. We used NVivo software for analyzing the large quantity of data collected. Due to the novelty of the case at hand and the nature of our research, the option was, as others have suggested (following Welch *et al.*, 2002; Welch and Piekkari, 2017), to not have *a priori* themes, instead allowing the data to talk for themselves. However, when analyzing the data, we performed iterative comparisons of common themes in the literature to help refine the themes and sub-themes (Easterby-Smith *et al.*, 2012; Glaser and Strauss, 1967).

4. FINDINGS

In response to our research question, a detailed account emerged from our data analysis on how social integration mechanisms enabled the focal firm to achieve different types of upgrading. In order to easily comprehend how the upgrading happened over time, we decided to divide the periods into two phases: pre- and post-acquisition.

4.1. Pre-acquisition

Prior to the acquisition, owing to factors such as the liability of emergingness and poor image of Chinese firms (Chatterjee and Sahasranamam, 2018; Madhok and Keyhani, 2012), Joyson had to engage in several visits and build a social framework in order to build legitimacy in Preh's eyes. Following an initial trip by Joyson to Preh in late-2006 and at the end of 2007, an international consultant prepared a group of firms for Preh's management to visit during a stopover in China, since Preh had started to have plans to enter the Chinese market. At that time, Preh's CEO and Preh's sales board member made their first visit to China. Even though Joyson was not on the consultant's list of scheduled companies to visit, due to Joyson's previous visit to Preh in Germany, Preh's CEO decided to visit Joyson headquarters in Ningbo. During this visit, Joyson's CEO presented his plans to Preh's board members; they checked the land that Joyson had recently acquired, on which they were planning to install the new manufacturing plant. Preh's CEO remembered the visit:

'...so that was [the] first visit we have with Joyson. At that time the company I think was at the end of 2007. The company was 3 years old, very young, and Jeff [Joyson's CEO] had a lot of dreams when we met ... [empty] Greenfields. And he showed me nice CAD [drafting computer software] pictures, but every Chinese company has nice CAD pictures. All the area was empty space.'

After this visit, Preh's senior management team felt that Joyson was too small and did not believe that Joyson's CEO would be able to build his proposed plans in the short-term. At the end of 2009, during another visit by Preh's sales board member to China, an external consultant of Preh, who had kept in touch with Joyson, convinced Preh's CEO to visit Joyson given the firm had built what they said they would back in 2007. Preh's CEO recalls this:

'So I think at the end of 2009, 2 years later, a guy who came with me [Preh's consultant company] was going again to Ningbo and I said [to Preh head of sales], "Some guy told me that Jeff [Joyson's CEO] has made a big development. Make a visit." And then he came back and said "Hey, everything was there as in the CAD, nearly everything, exactly. He made a big jump.'"

The visit provided evidence of Joyson being able to implement within two years what it had promised in 2007, and helped to build a positive image of Joyson as being different from

typical Chinese firms and enabled Joyson to build a common social framework that allowed it to increase legitimacy and trust between the two leaders. The following quote from Preh's CEO highlights how, through multiple social gatherings and meetings (environmental social integration), and based on a common vision of how business should be conducted (cognitive social integration), Joyson's CEO was able to gain legitimacy and trust:

'I think Jeff [Joyson's CEO] has a clear strategic vision. I think the general vision is the strength of Chinese people, not strategy vision. And Jeff has [a] clear vision and this vision has not changed. So, truly a little bit it's not static. It's a dynamic vision, but with a clear focus, not changed in the base functions. So I think that was, for me, important that we think we can trust on the words. And I'm a guy from Hamburg in Germany, and as I said, I make also handshake deals ... And for me, that was [a] very important point. I have the feeling he could also make handshake.'

Here we can see that the strategic intent of Joyson's CEO in terms of the future would work for Preh's CEO; Preh would have the opportunity to innovate and adjust (*'dynamic, not static'*), but at the same time would still keep to some ground rules (*'base functions'*). In fact, Joyson's CEO understood that gaining legitimacy with Preh's CEO was critical to gaining confidence over everyone else in Preh. This trust and clear vision stated by Preh's CEO was enhanced by the fact that Joyson's board members and senior managers were taking action in accordance with their words, which is different from what one would expect based on the Chinese business system (Torres de Oliveira and Figueira, 2018b). Not surprisingly, this is in contrast to the lack of confidence that Preh's CEO had when he first saw the 3D drawing of the new industrial site. Preh's CEO concluded:

'...I think, during the time, [the] major point was that everything what he [Joyson CEO] said, he'd do in the same way. So I think, for me it is important. You meet a lot of people in the world, which are telling me the whole day, the same thing. Two months later, the story is a little bit other.'

Preh's Chief Financial Officer (CFO) had similar views on Joyson's CEO: *'But he really realized what he addressed two years ago ... We were very astonished that he had a clear vision how he would do it. And he realized his vision ... Jeff is somebody who is really reliable.'* Preh's board members echoed similar views. Thus, we propose:

Proposition 1 *Establishing mechanisms for environmental and cognitive social integration between the EMNE acquirer and DMNE subsidiary enhances achievement of trust and legitimacy that are essential to pace subsequent upgrading mechanisms.*

After this first—but critical—step, several visits started happening to Germany and China (environmental social integration). During these visits, Joyson senior managers tried to capture as much information as possible and compare it with how Joyson operate, as Joyson CEO stated: “*we are Chinese, we are eager to learn and try to improve...*” Several direct quotes explain how Joyson senior managers learned from their visits to Preh before the acquisition and how this enhanced an internal critical analysis of what was happening in Preh compared with what Joyson had in place. An example is what Joyson’s CEO described after a visit to Preh’s facilities: ‘*We learned a lot during our visit to Preh. We realize[d] that we needed to create a strong quality control department and that the locations of the machinery are not random but relates with improving the performance.*’ For Preh the knowledge on how the disposition of their machineries impact production is eminently tacit, however, for Joyson this was not the case, and thus Joyson needed to deconstruct Preh’s tacit knowledge. At the same time, Joyson senior managers proceeded with a critical analysis on how both organizational structures were organized. Joyson’s head of production described what happened after they arrived back in China after this trip: ‘*...after that trip I sat down with my colleagues and we try to streamline our production and I can tell you that we start producing much faster since we manage to reduce the stop time of some people.*’ From these quotes, it can be seen how Joyson started to reflect on how it could streamline its processes by positioning its machinery differently, and at the same time achieve a functional upgrading by creating a new business function, namely a quality control department.

Furthermore, prior to the acquisition, and sensing the importance of personal relations—or *guanxi*, which is a strong part of Chinese way of doing business—several

activities happened in this regard which reflect an affective social integration mechanism. One of them was described by Jimmy, a board member from Joyson, who said the following about a trip before the acquisition:

'We invited all [Preh] the second-level managers and first-level ones in Ningbo. We have a meeting together. We spend three days together. We share our ideas. We invited external for the whole cross culture and not training just more team building. We visit our new facilities [Ningbo] and we closely listen to their suggestion on how to improve our systems.'

Before the acquisition, the same type of visits and gatherings happened in Germany, as the board member of HR described:

'It was very important to involve our senior management in our acquisition and the trip to Germany of all of us [board members] plus many of the senior management was critical [six months before the acquisition]. We learned a lot from these gatherings... for example, their system [human resources system] was way more developed than ours. They had specific training for each worker programmed with years in advance. We were much behind but now we start thinking like them... We spend a week in Germany where we had time to know them better and learn from them.'

The above quote suggests that prior to the acquisition itself, Joyson had incorporated affective social integration mechanisms in order to corroborate the potential changes that emerged from the initial visits. In summary, we see that through environmental and affective social integration both process and functional upgrading occurred, since Joyson was not only learning how to streamline their processes but also to create new functions (e.g., quality control department) and to advance its expertise in functions through training its employees. Thus, we propose:

Proposition 2 *Establishing mechanisms for environmental and affective social integration between the EMNE acquirer and DMNE subsidiary enhances the initiation of process and functional upgrading during pre-acquisition phases.*

However, it was not just functional or process upgrading that was triggered as a result of environmental and affective social integration in the pre-acquisition phase. After the first visit to Preh (environmental social integration) in 2006, Joyson started to realize a new business

opportunity that related to an inter-sectorial upgrading: designing and building assembly lines in China. As Joyson's CEO stated: *'I remember when we first saw their production lines and I asked from whom they bought it and they said: "we build it ourselves." I immediately saw there a huge business: Selling production lines in China would be in itself a great business.'* Because of that, Joyson CEO kept pushing it as he described: *"...I was not sure about the German market but I knew that in China this business would be very successful, so I keep pushing it... I made many questions about it to understand it better..."*. These were more provocative questions, which even sought confidential information, when compared with the reflective inquires made during the initial stages with the objective to learn and adapt Joyson processes or organizational structures, and to understand how they could bring that business unit to China. Despite immediately sensing the opportunity, Joyson's CEO knew that he would need to convince Preh board members to deviate from their core business—manufacturing automotive parts—to a completely new business. This task of convincing Preh occurred directly between the two CEOs through a mutual existence of shared frames that was the result of the trust that Preh's CEO had in Joyson's CEO. As Preh's CEO stated:

'I still remember when he [Joyson's CEO] talked about a new business. For us [Preh] that was never a business but only a necessity. I was skeptical in the beginning, but after some further talks I start[ed] to understand what Jeff had in mind. At some point I agreed with his vision after he explained me through how he would use both firm knowledge—from us our product and know-how, and their sales and local knowledge in China.'

Joyson's CEO, when talking about how this idea emerged, said:

'As soon as I knew that they were building their own manufacturing lines, I realize[d] how this business would be great in China ... It was not easy to convince him [Preh's CEO] because they never saw it as a business, for them it was just normal because they need it, they did not see the market either ... After a while they started to trust more and more and they agreed to give it a try.'

Joyson and Preh prepared this new inter-sectorial business before the acquisition, but it was only opened after the M&A was completed in 2012. Thus, we suggest:

Proposition 3 *Establishing mechanisms for environmental and cognitive social integration between the EMNE acquirer and DMNE subsidiary enhances the initiation of inter-sectorial upgrading during the pre-acquisition phase.*

4.2. Post-acquisition

After the acquisition, based on secondary data and observations during site visits, we saw that Joyson and Preh shared workspaces in China. Joyson provided Preh a space in their manufacturing campus in Ningbo where Preh was responsible for building their manufacturing facilities for the Asian market. This physical proximity of Preh's managers in China and their common processes when compared with Germany, allowed Joyson's managers to observe, in a closer way, the different systems that Preh had in place.

From an upgrading perspective, and similar to what Joyson's head of R&D described in the previous section, the board member for sales explained how important the gatherings during lunchtime are between Joyson and Preh, particularly in China where both companies share common facilities such as the canteen:

'... we have a very good environment between the teams. It is natural to see Germans talking with Germans and Chinese talking with Chinese, but you shouldn't forget that Chinese people is very curious and we have many questions. We could not understand why they always had their windows closed all the time [Preh manufacturing within [the] Joyson precinct in China], even when the weather was great outside. Or why they ask employees to change clothes and wash themselves before starting new shifts. All that we learn, at our pace I have to say, from them.'

Another example comes from the head of R&D, who described: *'After the Germans are here and during our lunch times many of us [Joyson's senior managers] started to ask why you build slabs that can hold twice what you need, or why the air condition[ing] is always on, including during the night?'*

In summary, the use of environmental social integration mechanisms, like shared workplaces and visits to each other's company locations, and affective social integration, through frequent informal gatherings (e.g. in the canteen), helped enhance Joyson's process upgrading by, for example, creating new processes for personal hygiene. Therefore, we posit

that it is important to establish mechanisms of environmental and affective social integration between the EMNE acquirer and DMNE subsidiary after the acquisition to enhance process upgrading. Thus, we propose:

Proposition 4 *Establishing mechanisms for environmental and affective social integration between the EMNE acquirer and DMNE subsidiary enhances the refinement of process upgrading during the post-acquisition phase.*

The presence of Preh manufacturing facilities in Joyson's precinct also supported functional upgrading. Joyson's CEO echoed some of these learning actions based on environmental social integration mechanisms that resulted in Joyson's functional upgrading:

'... not having integration [formal integration] between the firms doesn't mean that we can't see what they do and ask why they do what they do. Just by looking we learn a great deal. I can tell you that today we have a much higher quality control and efficiency that allows us to have much less scrap parts and our clients recognize that. Jimmy [Joyson board member of HR] also changed the training practices after talking with Preh.'

However, the continuation of functional upgrading was not only a result of the environmental social integration mechanisms. Cognitive social integration mechanisms played an important role in continuing with functional upgrading, namely through jointly training and establishing common local frameworks. During the post-acquisition phase, shared training sessions involving organizational members from both Joyson and Preh were organized, which ensured that they developed cognitive social integration. Preh's HR Director highlighted it this way:

'... I'm very pleased with them [Chinese colleagues] because they are very interesting. They are educated and well trained. We define a new development center also in China. Nearly all of them, the developer, come here [Germany] to train for six to seven or eight months ... This helped us to be in the same page.'

Joyson also helped Preh with understanding the vocabulary needed for communicating with transnational assemblers in China. The transnational assemblers operate within a double-parallel structure in China; one part is managed and controlled by the foreign

transnational assembler (VW group for example), the other by the local partners (SAIC group for example). The suppliers have to be able to understand this reality in China and adapt to this already complex and tense environment, as Preh China's CEO pointed out:

'I think the main point is that Joyson has some relationship. You know that the relationship between the German, or also U.S., assemblers, and the joint-venture partners [VW group for example], [is] not [an] easy one. They are always struggling and so we have normally the good contacts from the headquarters [VW group for example] and Joyson has a good contract to the joint-venture partner [SAIC group for example]. That helps.'

Preh's board member for the purchasing and supply chain (a Chinese citizen) substantiated this, saying:

'Joyson has a very solid network within the assemblers in China. And also Joyson understands the way how those joint ventures and assemblers manage their businesses, their concerns, requirements. And also those joint venture and assemblers in China [SAIC group for example], they are willing to talk with local people instead of foreign people. The same happens with foreigners' structures, where they always prefer to talk with people that understand their requirements better. We help them and they helped us.'

Such mutual support between Joyson and Preh was critical in different dimensions. Firstly, Joyson was able to explain to Preh the nature of transnational assemblers in China and the sensitivities associated in their relations with local partners. Moreover, Joyson's presence during the first meetings was critical for 'opening doors' and providing tacit knowledge that is particularly important in the beginning of partnerships. This helped Preh to overcome their liability of foreignness and it benefited Joyson to leverage the privileged contacts that Preh had with the foreign assembler's counterparts (VW group for example) in China and how to operate with them, which was particularly important for the sales department. As Joyson's marketing and sales board member stated:

'For sure that our relations with the VW and GM [groups] improved after our acquisition of Preh and that is because of their perception that we are a trustable company and because they come along and many times help speaking a "same language." They know what their German friends [from VW for example] want to hear... and of course our relations and sales have improved.'

The same environmental social integration mechanisms along with cognitive social integration mechanisms, namely through the shared frames of reference among the two organizations, enhanced functional upgrading in multiple ways. First, it helped in developing new functions around quality, safety and control—one that takes care of controlling and diminishing the pollution inside the manufacturing facilities, and another that is responsible for evaluating safety measures and acting in the case of accidents. Second, Joyson's sales department was able to advance its functions through the knowledge and shared vocabulary of Preh's sales team in China. Consequently, we argue that it is important to establish mechanisms of environmental and cognitive social integration between the EMNE acquirer and DMNE subsidiary after the acquisition to facilitate functional upgrading. Thus, we posit:

Proposition 5 *Establishing mechanisms for environmental and cognitive social integration between the EMNE acquirer and DMNE subsidiary enhances the refinement of functional upgrading during the post-acquisition phase.*

There was also inter-sectorial upgrading in the post-acquisition phase achieved through the materialization of the new business (the design, development, and sale of manufacturing production lines). As Joyson's CEO explained:

'For us [Joyson] [it] was always hard to find good and efficient manufacturing lines. [It] Is not only about have good machineries. [It] Is not about the most efficient either. [It] Is about both and based on the unique products that firms want to produce. So, [it] is in fact very difficult and there is a huge value added when you do it right. You can't find it in China so I really wanted to put the two companies working together on this—we have the sales capabilities and they have all the know-how. We have been very successful.'

Both firms directed a group of their workers, including managers, and other resources to this new business. Joyson's HR board members explained: *'Jeff told us about his idea of creating this new business [manufacturing production lines] and how we could use both firms' resources. There were many talks and preparations about it but we only managed to have it*

running after the purchase.’ Preh’s CEO substantiated this: *‘As you know, the alignment and motivation is always different when people understand that they are working under the same roof [under the same organization]. I think it was a good timing [talking about starting the business after the acquisition]’*. This quote implicitly explains that only when the M&A was completed was this new inter-sectorial upgrading ready to start. This implies that the internalization and subsequent creation of joint task forces, shared goals, and joint decisions involving members of both firms was required for inter-sectorial upgrading.

Based on the above and the secondary data on how this new business was incorporated and materialized, we find that even though the idea for inter-sectorial upgrading started before the acquisition, it was only possible to make it happen after the internalization and subsequent establishment of joint team and decision-making structures. Therefore, we posit that it is important to establish mechanisms of behavioral social integration between the EMNE acquirer and DMNE subsidiary after the acquisition to accomplish inter-sectorial upgrading. Thus, we propose:

Proposition 6 *Establishing mechanisms for behavioral social integration between the EMNE acquirer and DMNE subsidiary enhances the materialization of inter-sectorial upgrading during the post-acquisition phase.*

Interestingly, based on our interviews, observations, analysis of the catalogues, annual reports, and media information, there was no identifiable product upgrading during pre- and post-acquisition periods (or at least in the first 6 years after the acquisition).

In Tables 3 we summarize the data episodes and how they compare with the social integration mechanisms and upgrading strategies pre- and post-acquisition.

<Insert Tables 3 about here>

5. DISCUSSION

Figure 4 synthesizes the relationships between the upgrading and social integration constructs over time. The process starts with the EM firm realizing that to catch-up with more

advanced firms and to upgrade rapidly it needs to leap-frog, as developing internal skills will require resources that are not immediately available (e.g., specialized human resources or business processes). Therefore, for this leap-frog to happen, EM firms need to acquire more advanced firms that are frequently based in DMs (Deng, 2009). However, such DM firms are skeptical about starting conversations with EM firms due to their lack of legitimacy and the poor image associated with them (Pappu, Quester, and Cooksey, 2007). Acknowledging that, even if tacitly, EM firms use cognitive and environmental social integration mechanisms to *gain legitimacy*. After this first—but imperative—step, DM firms start to open up and to learn more about the EM firm. It starts to allow the EM firm’s senior managers to visit their operations in the DM. These visits trigger observations of differences between the EM and DM firms. The observations during the visits from EM firm senior managers activate reflective inquiries to DM firms’ senior managers on why the latter firm acts differently when compared with the former and how the former could adapt, namely in terms of business processes and functions within the organizational structure—what we call *reflective adaptive inquiring*. At the same time, these observations might follow a more *provocative inquiry* about more specific artifacts; for example, who are the suppliers of something critical for the DM firms (in our case, who developed the production line machinery?). We call it provocative because some of these questions can be associated with confidential information. Both reflective adaptive inquiring and provocative inquiring triggers individuals’ internal reflections.

<Figure 4 around here>

From a business process perspective, EM firm senior managers follow with initial discussions on the differences observed and try to make sense of such differences, since for the DM firm this is considered the normal way of operating and is incorporated as tacit knowledge (in our case the importance of production lines disposition)—which we call *deconstruction of acquired firm tacit knowledge*. These initial business process discussions involving EM firm

senior managers follow with further inquiries of DM firm senior management; these occur through affective social integration mechanisms. When the EM senior managers start to feel comfortable with potential new ways of doing things, they *initiate the process upgrading*, which is imminently dynamic and thus does not conclude immediately. The discussions with DM firms' senior managers keep reinforcing the dynamics of the new business processes in place. These discussions become more frequent and occur after the DM firms' facilities are installed within the EM firms' location after acquisition—we call this *vicinity deliberate inquiry*. After that, affective social integration mechanisms keep playing a critical role, which is aided by environmental social integration (physical proximity between the EM firm and DM firm facilities), and these mechanisms support to *refine the process upgrading*.

The reflective adaptive inquiring also triggers a deep analysis of the differences between both organizational structures and why some specific functions are required in that specific industry (in our case by analyzing the existence of different departments)—which we call *critical analysis of comparative organizational structures*. The classic example relates to soft-skill managerial functions, such as marketing, design, or R&D. EM firms are known to lack such functions and thus this is a major difference when compared with DM firms (Redding and Witt, 2007). Furthermore, changes on the organizational structures can foster innovation (Gentile-Ludecke, Torres de Oliveira, and Paul, 2019). As in the case of process upgrading discussed earlier, affective social integration mechanisms play a critical role in *initiating functional upgrading*, namely through formal discussions and other gatherings. The same mechanism enhances the *continuous testing and adapting of a new organizational structure* with new or upgraded functions. However, different from process upgrading, *the refining of functional upgrading* happens through shared frames of reference among the organizations and the several interactions that are enhanced by the local presence of the DM firm in the EM firm's location (environmental and cognitive social integration mechanisms).

From an inter-sectorial upgrading perspective, the provocative inquiry through environmental social integration mechanisms helps the EM firm to learn more about the specificities of a potential business in order to ascertain a new business opportunity—*sense opportunity*. However, it is through a mutual understanding of the necessities that firms encounter—for example, in terms of finding a reliable, customized, and high-quality product—that the new business is able to start, thus using cognitive integration mechanisms. This mechanism allows the EM firm to *initiate the inter-sectorial upgrading* and further *shape the opportunity*. Finally, the EM firm is able to *capture the opportunity* after the acquisition is formalized. This is followed by *refining inter-sectorial upgrading*, which happens through behavioral social integration mechanisms since the goals are interlinked between the two organizations in the new firm, and thus enables group members to coordinate their actions and decisions towards common goals.

6. IMPLICATIONS AND FUTURE RESEARCH

This paper discusses the observed social integration mechanisms that facilitate process, functional, and inter-sectorial upgrading through acquisitions, focusing on the case of an EMNE's acquisition of a DMNE as a laboratory for advancing theory. We began by highlighting the nature of the automobile GVC and the difficulties involved in achieving global lead-firm status for EMNEs. Subsequently, we presented an in-depth single case study of a Chinese automobile supplier, Joyson, acquiring a German automobile electronics supplier, Preh. The use of a qualitative single case study approach helped to refine our understanding of difficult-to-measure concepts, such as social integration, and discuss the relevance of social integration mechanisms in achieving the different types of upgrading before and after the acquisition.

6.1. Contributions to literature

This paper makes multiple contributions. Firstly, we add to the GVC literature by highlighting the role of social integration mechanisms in EMNE upgrading. Prior research has mostly

treated firms, and in particular their inter-organizational relations, as a black box in upgrading research (He *et al.*, 2018; Kadarusman and Nadvi, 2013). Not surprisingly, several researchers (Chatterjee and Sahasranamam, 2018; Hansen *et al.*, 2016; Kumaraswamy *et al.*, 2012) have called for future research in EMNE literature to explore the role of inter-organizational relationship mechanisms in facilitating upgrading. From a phenomenon-based research perspective, this paper has explored the theoretically understudied phenomenon of an EMNE becoming a first-tier supplier in a consolidated automobile GVC through a DMNE acquisition, which is contrary to what the GVC literature would expect. The literature review section illustrated the closed, consolidated nature of the automobile GVC, and this underlines the significance of the upgrading that the EMNE achieved. Given this significance, we highlight the relevance of inter-organizational relationships in enabling upgrading, specifically in terms of social integration mechanisms. Using theoretical tenets of social integration literature (O'Reilly *et al.*, 1989; Van der Vegt, 2002), we explain how the four social integration mechanisms—environmental, affective, cognitive, and behavioral social integration—are employed by EMNEs in their inter-organizational relationships with DMNEs during the pre- and post-acquisition phases and how this enables different types of upgrading.

By integrating two streams of literature we extend our knowledge on how social integration literature intersects and complements the upgrading literature, particularly in the pre- and post-acquisition period of an EM firm M&A into a developed country. In prior research, the role of inter-organizational social integration mechanisms in terms of collaboration with other organizations has received little attention, especially within the EM context (Briel *et al.*, 2019; Grøgaard and Colman, 2016). Responding to research calls for process models in this stream of research (Hensmans and Liu, 2018), our conceptual framework develops a process model showing the importance of social integration mechanisms in the context of resource-constrained environments, like EMs, and in technology-intensive

industries, such as the automotive industry. These environments often lack the means for internal exploration (expensive R&D), and hence depend on external knowledge sources for their innovation and upgrading efforts (Sahasranamam, Rentala, and Rose, 2019). While the understanding of how and why EM firms acquire technologically advanced firms in DMs is well studied (e.g., higher financial resources available (Buckley *et al.*, 2008) or to leap-frog (Luo and Tung, 2007)), the explanation on how these lower-capability firms are able to further manage, learn, and upgrade from more capable firms is less understood. The integration of these two streams of literature brings greater light to this.

Secondly, we add to the literature on knowledge management within M&As. One stream of IB research discusses how MNEs upgrade through bounded rationality of headquarters (Simon, 1959; Ciabuschi, Forsgren, and Martín, 2015). Based on transaction cost economics literature, they argue that headquarter managers' attempts to be rational are bounded by time, information-processing ability, and problem complexity. Hierarchical structures involving delegation of autonomy to subsidiaries are seen as mechanisms to overcome the bounded rationality concerns (Buckley & Casson, 1991). In our research we find a different variant to this dynamic, as DMNE (acquired firm) senior managers do not perceive their organization as being a formal subsidiary but rather as an autonomous enterprise that happens to have an EMNE as an owner. This lack of hierarchical structure reduces subsidiary perception of opportunism and, thus, subsidiaries' senior managers are more willing to share the knowledge needed for EMNE upgrading. Another stream of research in IB discusses the direction of knowledge flows within M&As (Awate *et al.*, 2012, 2015). Our EMNE senior managers acknowledge that their DM subsidiary have superior managerial skills and that they should be more open in their knowledge search process with their subsidiary (DM firm), its assimilation, and further exploitation, which concurs with the findings of Awate *et al.* (2015). However, we add to this literature by specifying the nature, the processes, and the chronology

of knowledge search done by the EMNE headquarters during the different phases of an acquisition process. This has allowed us to explain that EMNEs' senior managers are primarily interested in improving their business units' efficiencies and output quality in a pragmatic way, and thus reduce the number of potential complications experienced in their daily activities. However, these EMNEs' manager are doing this pragmatic search within the formal boundaries of the firm. We call this type of knowledge search from EMNEs' senior managers, *bounded sourcing specific knowledge*.

Third, by employing a phenomenon-based research approach, we start to uncover (to our knowledge for the first time) how it is possible for an EMNE to upgrade without formal integration after acquiring a DMNE. Uncovering these mechanisms allows us to understand why in recent years we have observed a larger number of acquisitions that are not deemed to formally integrate (Torres de Oliveira and Rottig, 2018) or have light-touch integration (Liu and Woywode, 2013). The majority of the extant literature on M&As does not picture an acquisition without integration (Cartwright and Schoenberg, 2006). Our study advances the theory on acquisitions by explaining that the acquired firm can have wins—even if not quick wins as formal integration suggests (Bert, MacDonald, and Herd, 2003)—that seem to be sustainable. Furthermore, the greater use of informal integration rather than formal integration will help reduce a number of associated post-acquisition formal integration problems (detailed in Sirower, 1997). In doing so, we might start to see the high failure rate of M&As, estimated at around between 70 percent and 90 percent (Christensen *et al.*, 2011), decreasing.

6.2. Practical implications

For EMNE managers, our research highlights the importance of social integration across organizational boundaries given it is a key factor that facilitates knowledge transfer from DMNEs for upgrading, particularly if no formal or structural integration occurs. This suggests that the development of mechanisms to facilitate strong socially integrated relationships with acquired firms is central for EMNEs when acquiring DMNEs. This allows the acquired firm to

better understand the parent firm's underlying strategies and characteristics, and to shape its actions to better facilitate upgrading. Our research shows that EMNE managers need to put in place combinations of social integration mechanisms during different phases of the acquisition (see Figure 4). For instance, environmental and cognitive social integration mechanisms are crucial for gaining initial legitimacy. Similarly, we highlight the relevance of affective social integration for initiating process and functional upgrading, while cognitive social integration mechanisms become important for initiating inter-sectorial upgrading. We also see different combinations of social integration mechanisms being relevant for refining the upgrading (e.g. environmental and affective social integration in the case of process upgrading, environmental and cognitive social integration in the case of functional upgrading, and behavioral social integration in the case of inter-sectorial upgrading). The upgrading and success that Joyson achieved by becoming a global lead firm through a DMNE acquisition also serves as an example for other EM firm managers to learn from and replicate.

6.3. Limitations and future research

Despite its contributions, the scope of this study is limited by its use of a single case study. The use of a DMNE acquisition as a strategy for GVC upgrading by an EMNE is still a rare occurrence (Hansen *et al.*, 2016; He *et al.*, 2018), and our study is among the initial few to explore this theoretically and in an in-depth manner. Future research could build on our study to consider multiple case studies from different industrial contexts, host developed countries, and home emerging economies to derive more generalized insights, theoretical propositions, and conceptual models. For instance, from the Indian context, business groups like Tata have been involved in similar cross-country upgrading efforts in the automobile sector (e.g. Tata – Jaguar Land Rover deal). Therefore, it would be interesting to explore the nature of integration mechanisms adopted in upgrading efforts led by EMNEs having different ownership structures from different home emerging economies (Sahasranamam, Arya and Sud, 2019).

Our key findings around the role of social integration mechanisms being crucial to support EMNE upgrading through acquisitions rather than formal integration mechanisms requires deeper research. For instance, researchers could employ quantitative approaches to test our propositions. Another opportunity for future research would be to study their combined role, to evaluate whether formal and social integration mechanisms have complementary or contradictory effects in supporting upgrading (Cassiman and Veugelers, 2006). Moreover, it would be interesting to compare the social integration mechanisms adopted by DMNEs in their subsidiaries within EMs with those adopted by EMNEs in the same context. Given the evidence we saw concerning the role of both Joyson's and Preh's CEOs in facilitating social integration mechanisms, another strand of enquiry could emanate from using the upper-echelon perspective (Sivakumar, Sahasranamam, and Rose, 2016) to study the role of top-management teams and boards in facilitating social integration in EMNE–DMNE acquisitions.

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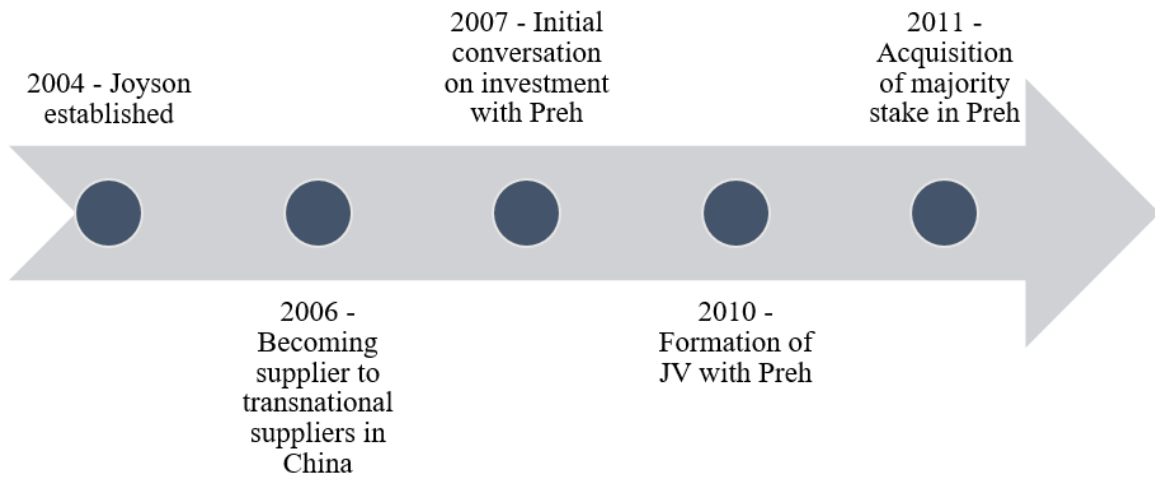


FIGURE 1 Timeline of key events

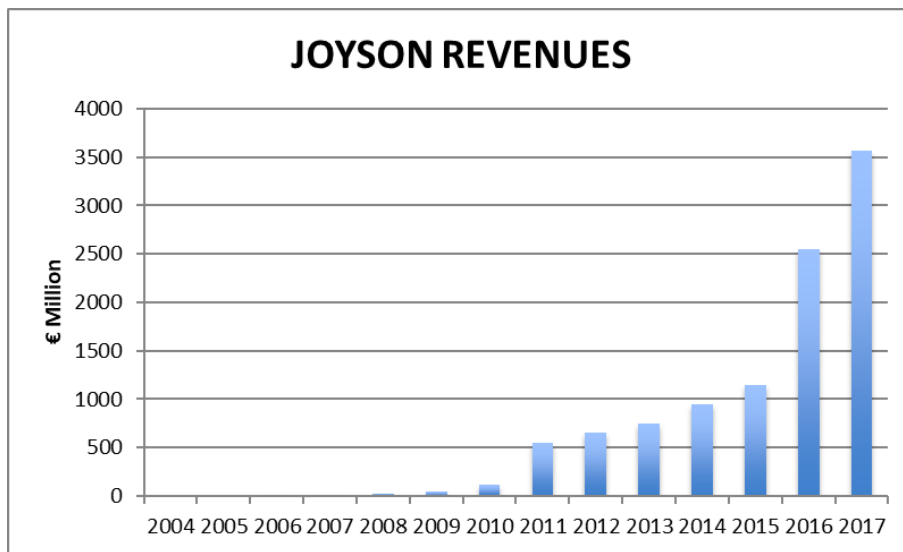


FIGURE 2 Joyson's revenues

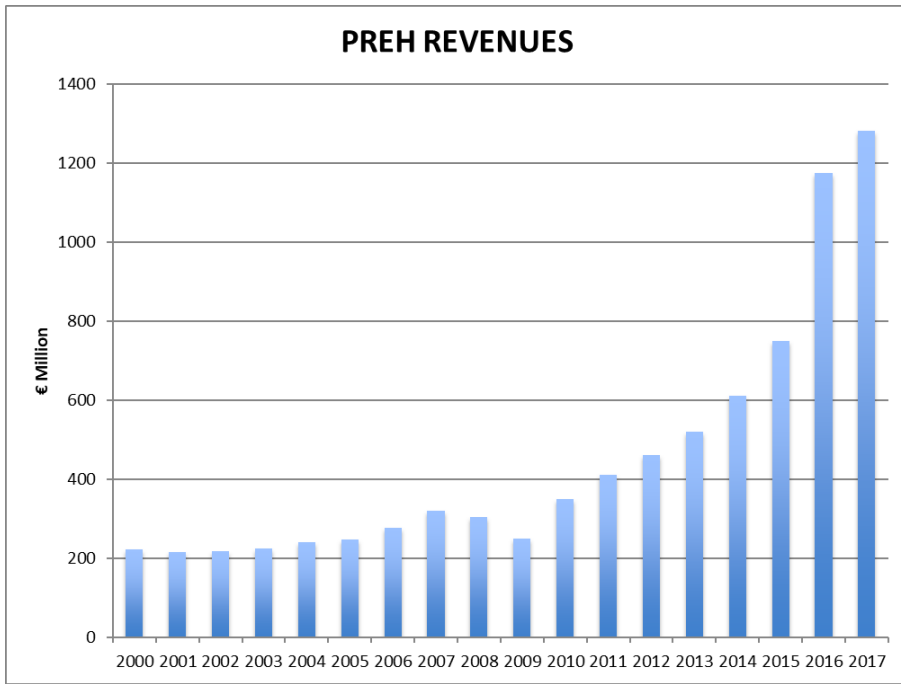


FIGURE 3 Preh's revenues

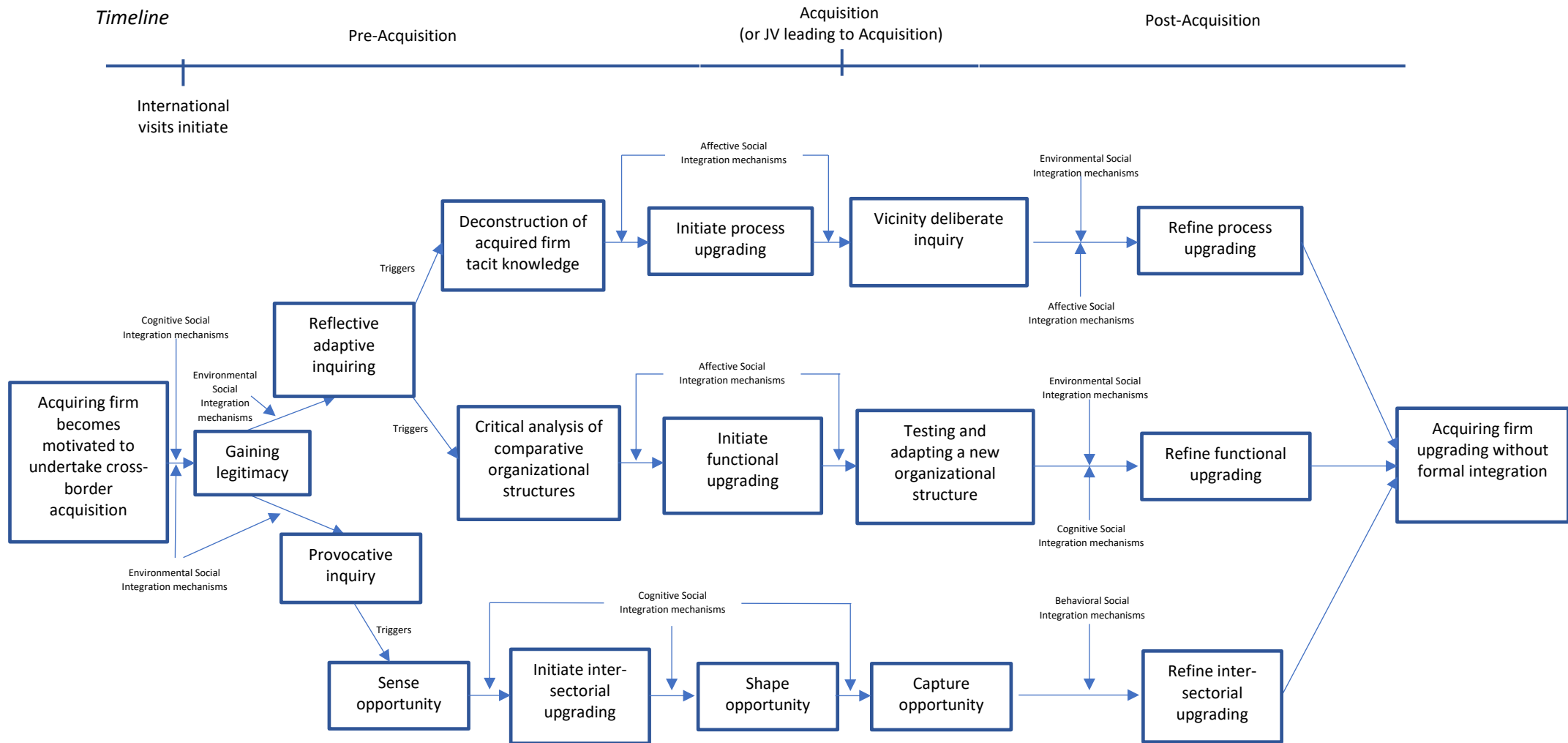


FIGURE 4 Process model of acquiring organization upgrading without formal integration

TABLE 1 – Overview of interviewed executive board members

| | TITLE | LOCATION | CITIZENSHIP |
|-----|---|-----------------|--------------------|
| 1. | CEO of Joyson group and CEO of Joyson automotive | China based | Chinese |
| 2. | Chairman of Joyson group and CFO of Joyson automotive | China based | Chinese |
| 3. | The board member responsible for HR of Joyson automotive, who is a board member of Joyson group | China based | Chinese |
| 4. | The board member responsible for sales and marketing of Joyson automotive and is a board member of Joyson group | China based | Chinese |
| 5. | Head of stock-market operations of Joyson group | China based | Chinese |
| 6. | Head of R&D of Joyson automotive | China based | Chinese |
| 7. | CEO of Preh | German based | German |
| 8. | CFO of Preh | German based | German |
| 9. | Board member of R&D of Preh | German based | German |
| 10. | Board member of sales & marketing of Preh | German based | German |
| 11. | Board member of purchasing & supply chain of Preh | German based | Chinese |
| 12. | Head of HR of Preh | German based | German |
| 13. | CEO of Preh China subsidiar | China based | German |
| 14. | CFO of Preh China subsidiary | China based | Chinese |
| 15. | Head of R&D of Preh China subsidiary | China based | Chinese |

TABLE 2 – Detail of executive interviews

| Company | Position | Number of interviews | Duration (H) | Interview language |
|---|----------------------------------|-----------------------------|---------------------|---------------------------|
| Joyson Group + Joyson Automotive | CEO | 2 | 03:03 | Large majority in English |
| Joyson Group + Joyson Automotive | Chairman | 2 | 02:28 | Chinese |
| Joyson Group + Joyson Automotive | Board - HR | 4 | 04:12 | English |
| Joyson Automotive | Board - Sales & Marketing | 1 | 01:41 | Chinese |
| Joyson Automotive | Head of stock-market operations | 1 | 00:43 | English |
| Joyson Automotive | Head of R&D | 1 | 01:12 | English |
| Joyson Automotive | Head of Communication | 1 | 01:25 | English |
| Preh | CEO | 1 | 01:14 | English |
| Preh | CFO | 1 | 00:51 | English |
| Preh | Board - R&D | 1 | 00:55 | English |
| Preh | Board - Sales & Marketing | 1 | 00:56 | English |
| Preh | Board - Purchases & Supply Chain | 1 | 01:13 | English |
| Preh | Head of Sales | 1 | 01:24 | English |
| Preh - China Subsidiary | Head of HR | 1 | 00:58 | English |
| Preh - China Subsidiary | CEO | 2 | 03:10 | English |
| Preh - China Subsidiary | CFO | 1 | 01:03 | English |
| Preh - China Subsidiary | Head of R&D | 1 | 00:42 | English |
| Transnational Assembler - China subsidiary | Head of Supply Chain | 1 | 01:23 | English |
| China Automotive Technology & research Center | Senior Industry Researcher | 3 | 02:53 | Chinese |

| | |
|------------------|----|
| Total Interviews | 27 |
|------------------|----|

TABLE 3 – Data episodes

| | Pre-Acquisition | | | | Post-Acquisition | | | |
|----------------------------------|---|--|---|--|---|---|---|--|
| | Environmental Social Integration Mechanism | Cognitive Social Integration Mechanisms | Affective Social Integration Mechanisms | Behavioral Social Integration Mechanisms | Environmental Social Integration Mechanism | Cognitive Social Integration Mechanisms | Affective Social Integration Mechanisms | Behavioral Social Integration Mechanisms |
| Process Upgrading | <i>We learned a lot from these gatherings... for example, their system...</i> | <i>So I think that was, for me, important that we think we can trust on the words. And I'm a guy from Hamburg in Germany, and as I said, I make also handshake deals ... And for me, that was very important point. I have the feeling he could also make handshake.</i> | <i>We spend three days together. We share our ideas. We invited external for the whole cross culture and not training just more team building. We visit our new facilities [Ningbo] and we closely listen to their suggestion on how to improve our systems</i> | | <i>Several informal conversation in common facilities where many questions from Chinese Senior Managers were answered by German employees: Chinese people is very curious and we have many questions</i> | | <i>We define a new development center also in China. Nearly all of them, the developer, come here [Germany] to train for six to seven or eight months</i> | |
| Functional Upgrading | <i>We spend a week in Germany where we had time to know them better and learn from them...</i> | | <i>We realize[d] that we needed to create a strong quality control department and that the locations of the machinery are not random but relates with improving the performance.</i> | | <i>After the Germans are here and during our lunch times many of us [Joyson senior managers] started to ask why you build slabs that can hold twice what you need, or why the air condition is always on, including during the night.</i> | <i>They know what their German friends [from VW for example] want to hear... and of course our relations and sales have improved.</i> | | |
| Inter-Sectorial Upgrading | <i>I remember when we first saw their production lines and I asked from whom they bought it</i> | | | | | | | <i>...the alignment and motivation is always different when people understand that they are working under the same roof.</i> |
| Product Upgrading | | | | | | | | |

