

Integrated Model Frameworks for Chinese Corporations and German Enterprises

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Abstract: This paper presents a novel method for identifying the suitable mode selection of culture integration for Chinese enterprises, during the oversea mergers and acquisitions with Germany family enterprises. Using questionnaire and case study, the national and organizational culture were measured for the comparison of Chinese and German family enterprises, and the influence factors of culture difference and suitable culture integration modes would be teased out. Based on Berry's Acculturation theory, this paper would propose that if the national and organizational cultures were both distant, then the marginalization would be positive; if they were both close, then the assimilation would be positive; if their national culture were close while organizational culture were distant, then the separation would be positive; lastly, if their national culture were distant while organizational culture were close, then the integration would be positive. After the questionnaire research (130 open & close questionnaires to Chinese enterprises and 20 to Germany), 86 % valid questionnaires were recovered. The result shows agreement with theoretical prediction. Three case studies were conducted accordingly. The work presented here has profound implications for future studies of Berry's Acculturation theory. It is hoped to help solve the problem of the culture integration in mergers and acquisitions among China and Western Countries in the future and significantly improve over previous efforts by Moran, et al.

Key words: culture difference, culture integration modes, Chinese enterprises, decision-making process, German family enterprises, mergers and acquisitions

1. Introduction and Research Subjects

By collecting empirical data through questionnaire survey, this paper will mainly focus on the influence of corporate culture when Chinese enterprises make decisions about selecting culture integration models, after merging Germany companies. Here, corporate culture dimensions are independent variables, whereas culture integration modes are dependent variables, with the guide of Berry's acculturation theory (Berry, 1997) as the fundamental integration theory.

Considerable previous researchers merely highlighted the impacts of corporate culture on the performance of M&A (Yan and Kan, 2014), or others only compared national or corporate cultures between China and other countries (Direction, 2006). There were also some researchers pay more attention to the influence of national culture to M&A integration mode selection between China and Germany, from the macro- national level (Dongmei, 2012). But due to different corporate cultures, national culture analysis is not always applicable to specific company circumstances between China and Germany (Lodorfos & Boateng, 2006; Wei, 2008).

However, only a few studies linked corporate culture dimensions with culture integration and specifically analyzed each dimension's influence on the choice of M&A culture integration

within China and Germany (Dongmei, 2012). According to a report by Quer, Claver and Rienda (2012), Chinese enterprises faced great challenges in culture integration after cross-border M&A because of "cultural difference between China and other countries and low identification of Chinese characteristic culture in the acquiring and acquired companies". As Wei (2008) pointed out that Chinese enterprises face great challenges in culture integration after cross-border M&A with Germany, as high rate (50%) failed to deliver the expected results (Riad, 2005; Wei, 2008). Hence, it is essential to respectively elucidate the influence of corporate culture dimensions on Chinese enterprises making decisions to choose culture integration models after merging Germany companies.

2. M&A between China and Germany

M&A is a deal to unite two existing companies into one new company, through the purchase of a portion of or entire equity or assets of the target company, to gain control of the target company (Olie, 1990; Hirsch, 1986; Weber, Tarba & Reichel, 2001). Yuhong (2007) mentioned that cross-border M&A makes the assets and operations of the enterprises belonging to two different countries be merged into a new legal entity, with the control of assets and operations transferred from local enterprises to foreign companies.

There are several types and reasons why companies complete

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M&A (Ovseiko & Others, 2015). According to industry relations, it can be divided into three types (Weber, Tarba & Reichel, 2001). The first is called horizontal merger, which is purchase companies in the same industry to eliminate competition and extend market share. Secondly, it is vertical merger, which is by purchasing companies in the production process links, (eg. raw material producers or sellers) to extend production scales and speed up production process. Lastly, conglomerate merger by purchasing firms nothing in common to reduce the business risks arising from engaging in single industry and diversify their investment risks (Yu, Engleman & Van, 2005). According to the ways of investment, it can be divided into three types, with the start of the purchase of all or most of the shares of the target enterprise. Acquires become the subsidiaries of the merging enterprises wholly. Then by purchasing of a certain share of the target companies, the acquirers can get the control right to the targeted. Finally, purchase tangible or intangible assets (technology/equipment / staff / management method) in cash or stock. The acquiring firms have to undertake part of the liabilities of acquires (Bijlsma-Frankema, 2001). As what PritchettChina (2013) figured out, there are always some conflicts with shareholders and managers from two countries.

Over the past two decades, cross-border M&A have become the popular way of foreign direct investment (FDI) in the world (Cai & Shen, 2001). Following this trend, Chinese enterprises gradually gain attention in international business, due to the active use of M&A as a method to expand in global markets (Valentino & Brunelle, 2004; Wei, 2008). However, 50% of M&A impeded Chinese enterprises to reach their goals. McKinsey, the ranked first consulting firm in United States, pointed out: from the last five years, the rate of M&A cases with huge return only accounted for 17% of the total, while 50% resulted in satisfaction to shareholders. The most common reason for failure is the cultural contradictions (Bijlsma-Frankema, 2001). Based on this circumstance, it is essential to learn the significance of culture influence during Chinese M&A business, which is a comprehensive research area that deserves being studied in depth (Bijlsma-Frankema, 2001; PritchettChina, 2013).

So far, China's acquisitions in Germany are mostly horizontal acquisitions, mainly focused on the machinery manufacturing industry (Wei, 2008). Germany is famous with its technology and manufacturing industry, which coincides with China's long-term development strategy. In some Germany leading technology and industry, such as light and wind energy, there are the increasing investments from Chinese enterprises (Wei, 2008). Especially from the 90s of last century, the German companies for China to merger are increasing as various reasons (PritchettChina, 2013). This is mainly because Germany did not timely adapt to the globalization environment, and lead to operational difficulties in product replacement, market transfer, compression costs and other aspects (Wei, 2008). Secondly, Germany is in the transition period from the mixed financing system to the direct - mixed financing system, it is more difficult for small and medium German enterprises to obtain

bank loans to continue to operate and expand their production (Yan & Kan, 2014). Third, for German family enterprises, the next generation is not willing to inherit his father's firm with the social value diversification (Yan & Kan, 2014).

Therefore, German government hopes that when its local enterprises' overseas investments are increasing, they can absorb more FDI to increase local taxes and employment and expand market share (Wei, 2008). Particularly, Wei (2008) said that Germany believes that China's overseas investment before and after the year of 2015 can up to about 600-700 billion dollars per year and Germany can absorb 2% from it, which is equivalent to more than 10 billion dollars direct investment inflows a year. As a consequence, Chinese M&A activities in Germany have attracted the attention of the German public, for example, the acquisition of Germany Parchim Airport by Henan Linde Co., Ltd. in the year of 2007.

3. Corporate Culture

Corporate culture originated in the sixties of last century, which is the connotation of culture in the enterprise (Hofstede & Bond, 1984; Hirsch, 1986). Western scholars say that most of the corporate culture refers to the unique cultural values, habits, ethics and production concepts formed in an organization. Schwarz and Davis (1981) considered it is the beliefs and expectations forms shared by the members of the enterprise, and is the basis for determining the behavior of the members. Edgar Schein (1984) argued that the concept of corporate culture is a set of value systems that most members agree on and used to educate new employees. While Lorsch (1986) saw that it is the common belief of senior managers as a way of managing employees.

Corporate culture needs to be broken down into specific layers in order to analyze its influence on culture integration (Hofstede & Bond, 1984). According to Yifan and Feng (2011), cultural can be divided into several levels: nations, organizations, industries and so on. Bijlsma-Frankema (2001) suggested that cultural factors in cross-border M&A could be studied at double layers (organizational and national layers). Even though there were several culture dimensions theories that are available in academic studies, only a few existed studies effectively used these dimensions to measure culture (Ovseiko & Others, 2015). The limitations on existed studies revealed that culture dimensions are not implemented sufficiently and correctly to analyze culture difference. But what need to be acknowledged is that the culture dimensions indeed provide a systematic structure which is beneficial for identify and analysis the specific culture difference between merged and merging firms (Stahl & Voigt, 2005; Yuhong, 2007).

However, Hofstede's (1984) seven dimensions of corporate culture will be used for evaluating objective of this paper. Actually, there are also many other corporate culture dimensions, for example, Chatterjee et al.'s (1992) dimensions of organizational culture. But the purpose of these culture dimensions is not for the analysis of culture integration. For example, Chatterjee's culture dimensions are

used for analysis the relationship between culture difference and shareholder value. As a result, corporate culture dimensions provided by Hofstede (1984) is the most relevant with this paper. However, culture dimensions cannot include all the culture difference that will affect the mode selection of culture integration (Yuhong, 2007).

Therefore, in order to understand corporate culture dimensions more deeply, other areas such as staff turnover rate, understanding of corporate missions from employees, etc. also need to be taken into account (Yuhong, 2007).

Table 1. Organizational culture dimensions (Hofstede & Bond, 1984)

Dimensions	Corporate Culture Differences Descriptions
Autonomy on decision making	Empowerment VS Hierarchical/centralized
Vertical-hierarchical contact	Attitudes to subordinates (attempt to new ideas)
Horizontal relationship	Coordination/harmony VS scheduled/standardization
Risk	the tendency to take risks/threat
Rewards	Fairly/competitively linked with work performance (salary)
Company Performance	Efficiency VS achievements at the expense of efficiency
Innovation	Rapid response to changes/flexible time orientation VS Stability/formality

Source. Hofstede's culture dimensions an independent validation using Rokeach's value survey. Hofstede and Bond, 1984, p.418.

4. Culture Integration Modes

Corporate culture integration is after M&A, on the basis of confirming the original corporate culture, to realize the cultural identity and cultural ownership, and thus to form a new corporate culture (Vaara, 2002; Seo & Hill, 2005; Yuhong, 2007). In general, original corporate culture as an exclusive and confrontational characteristics to a foreign culture and culture reform, so the enterprise culture integration must be based on corporate culture types and the degree of difference, or other specific circumstances to choose (Valentino & Brunelle, 2004; Riad, 2005).

In order to promote the success of culture integration, models have to be researched deeply (Riad, 2005; Yuhong, 2007; Baoqi, 2012; Boxia, 2013). Theories about culture integration modes in M&A have been raised since 1980s, and the basic one is Berry's (1997) acculturation theory (Baoqi, 2012). Actually, the modes of culture integration that presented by other scholars tend to have something in common with Berry's idea. For example, Nahavandi's (1993) research also presented "assimilation mode" with the same definition; Evans (1991) suggested that through the culture

infiltration and compromise, a mix culture is formed to integrate the culture strength of merged and merging firms. This mode is similar to Berry's integration mode (Yu, Engleman & Van, 2005; Boxia, 2013). These ideas reflected that actually Berry's (1997) acculturation theory is the most comprehensive one that includes different types of culture integration, which make it become more appropriate for academic research than other same type theories. However, there are also some scholars argued about the practicality of Berry's acculturation modes. Picker et al. (1991) and Olie (1990) claimed that the premises of successfully implementing "separation mode" are the merged firms have their own superior corporate culture and there are not too many direct contacts between merged and merging firm. They further argued that even though these premises were satisfied, it is still difficult to use separation mode. From this point of view, Berry's arguments cannot be fully accepted.

Overall, this paper will regard it as the fundamental theory for further research to develop it to be more suitable for Chinese and German M&A business. Berry (1997) suggested that there are four acculturation modes that can be used for culture integration in M&A.

Table 2. Acculturation Theory (Berry, 1997)

Contact	Cultural maintenance	
	YES	NO
YES	Integration	Assimilation
NO	Seperation	Marginalization

Source. Immigration, acculturation and adaptation. Berry, 1997, p.20.

1. Integration. Both parties try to adjust to each other's culture and make changes.

2. Assimilation. Merged firm forego its own corporate values, and the culture of merged firm is completely replaced by that of merging firm.

3. Separation. Merged firm isolate from merging firm in terms of culture and continue to maintain their own original culture.

4. Marginalization. There is no culture maintenance in merged side, and the psychological bonds among employees break up. This

condition may finally lead to culture loss for merged firm.

5. Statistic Analysis

In this paper, the primary data obtained through questionnaire survey. In the design of the questionnaire, we firstly determined the main content of our research. Then, based on previous research results (Hofstede & Bond, 1984), we have selected and revised the targeted projects. The actual survey is mainly for Chinese and German companies, most of which are located in Shanghai, Jiangsu,

and Munich, where M&A between China and Germany are relatively active. Particular emphasis is that, after the specific screening, the sample objects of the questionnaire are in full compliance with our empirical requirements. The objects are generally the core senior managers or above, with the age of 30-50 years old. They mainly have more than 10 years work experience for China and Germany M&A projects. Their affiliated enterprises are mostly more than 5,000 large-scale manufacturing and production industry companies. Most of them have more than one time of implementing cross-border M&A projects. 200 questionnaires were distributed, affiliated with three open-ended questions on each questionnaire, asking them to illustrate M&A between China and Germany culture conflicts and integration influence factors as much as they think (These factors collected could be expressed in key words or sentences). In the end, 65 questionnaires were recovered, in which 62 were valid, which met with the requirements of large sample.

The statistical method used in this study is Linear Regression with the statistic analysis software IBM SPSS Statistics (Version 22). In order to ensure the reliability of the subsequent statistic analysis,

we clear up the collected questionnaires using the Microsoft Excel on the following order: 1. Removing the invalid questionnaires when inputting the data of questionnaires. The uncompleted questionnaires were considered invalid questionnaires. 2. The collected original questionnaires are numbered, corresponding directly with the questionnaire numbers entered into Excel. In order to ensure the accuracy of entered data, random sampling method would be used during the data entry process, to check the entered Excel database with the original questionnaire. If they were all correct, the process would be continued, while if there were errors, then erroneous data would be promptly corrected, and further verification for other data would be continued. 3. In order to regard the four integration models as dependent variables respectively, we numbered them as 1、2、3、4 with the correspondence to integration, assimilation, separation and marginalization. Then, according to the objects' answers, if the object chose integration, it was numbered as 1, if not, as 0. The same method used to the rest three models. The part format as follows in Table 3:

Table 3. Sorting the culture integration modes

1	Responder	CollectorID	StartDate	EndDate	IP Address	Email Add	Your nation	Your busin	How many	There are commonly four culture integration r			
										Response	Response	Response	Response
2										1	2	3	4
3	4.95E+09	90564587	09-02-2016	09-02-2016	155.56.68.215		1	0	3	1	0	0	0
4	4.94E+09	90564587	08-30-2016	08-30-2016	117.136.8.230		0	3	1	0	1	0	0
5	4.94E+09	90564587	08-29-2016	08-29-2016	109.84.2.157		1	3	2	1	0	0	0
6	4.94E+09	90564587	08-29-2016	08-29-2016	46.5.19.108		1	3	3	1	0	0	0
7	4.94E+09	90564587	08-29-2016	08-29-2016	223.197.183.91		0	0	3	1	0	0	0
8	4.94E+09	90564587	08-29-2016	08-29-2016	121.227.179.234		0	0	1	0	1	0	0
9	4.94E+09	90564587	08-29-2016	08-29-2016	117.136.95.1		0	3	2	1	0	0	0

Source. Sorting data according to the questionnaire survey

From the whole data we can discover that all objectives selected only one mode in their integration process, which reflects that culture integration mode selection by Chinese is not diversified. As Yifan and Feng (2011) mentioned that Chinese enterprises generally use only one model - assimilation, the mandatory way to force the merged enterprise to follow their culture. But the point here is different from her. We can find that all objectives select three ways: integration, assimilation and separation, while no objective selected

two or more models at the same time. According to Yifan and Feng (2011), this is because the lack of integration experience of Chinese companies, with no mature and systematic related culture integration knowledge and skills.

The significant results of the liner regression between corporation culture dimensions and the integration mode shows in the table 4.

Table 4. The liner regression between corporation culture dimensions and the integration mode

Model	Non-standard Coefficient		Standard Coefficient		T	Significance
	B	Standard error	Beta			
autonomy on decision-making	0.557	0.121		1.161	4.589	0
adaptation preference	-0.152	0.076		-0.423	-2.006	0.059
working time	0.146	0.07		0.363	2.075	0.052
staff turn-over rate	-0.348	0.151		-0.616	-2.306	0.033

Coefficient: integration

Source. Sorting data according to the questionnaire survey

From the special analysis, it is obvious that the decision-making power of employees is significantly related to the selection of integration. The greater the power of independent decision-making, the integration mode is more likely to be adopted by China and Germany M&A. Same as what Yuhong (2007) figured out, higher employee autonomy represents greater employees' subjective initiative, indicating that employees have high degree of participation in the enterprise management. Therefore, employees

feel they are valued and their job satisfactions are satisfied, leading them to work more actively and more confidently (Boxia, 2013). Boxia (2013) added that if implementing the integration method, employees would be actively involved in and corporate to the new company structure's adjustments, and are more willing to communicate with and accept the new culture from the other company. Hence, obviously, the greater the probability of successful culture integration would be realized.

While what is worth noting is that the correlation coefficient between staff turnover rate with integration mode is negative. This negative correlation indicates that the higher the staff turnover rate, the lower the likelihood of adopting the integration mode. Yuhong (2007) said that higher employee turnover rate relies on the condition that the new company has more necessary to lay off redundant staff, replace the incapacitated employees, and recruit new staff. Consequently, the organizational structure adjustment rate is higher after the acquisition. As a result, staff would feel fear and panic because of the loss of previous familiar working environment. In

this condition, if accepting the integration way, the two sides employees will be more unsatisfied with the status quo, and resent to the culture of the other side, leading more culture conflicts. From this point of view, the possibility of adoption of integration is lower when staff turnover rate is higher.

Finally, however, in this model, other dimensions do not have significant effect on the choice of integration.

The significant results of the linear regression between corporation culture dimensions and the assimilation mode shows in the table 5.

Table 5. The liner regression between corporation culture dimensions and the assimilation mode

Model	Non-standard Coefficient		Standard Coefficient		T	Significance
	B	Standard error	Beta			
vertical-hierarchical contact	0.252	0.121	0.623		2.085	0.051
centralized control of seniors	0.228	0.097	0.488		2.338	0.03
adaptation preference	0.292	0.151	0.536		1.934	0.068
autonomy on decision-making	-0.467	0.127	-1.035		-3.666	0.002

Coefficient: assimilation

Source. Sorting data according to the questionnaire survey

Judging from the current data, we can see that accordingly, the autonomy on decision-making is significantly negative to the choice of assimilation, which is exactly contrary to the choice preference of the integration mode. It means that the greater the power of independent decision-making, indicating that the company more respect the ideas and suggestions of employees and having higher rate to retain the culture of the other side, thus, the less likely for Chinese enterprises to apply assimilation (Direction, 2006).

While the appropriate centralized control of senior leaders and the vertical-hierarchical contact are both significantly positive correlated to the assimilation mode, namely, the more centralized and hierarchical of seniors, the more chances the assimilation be selected. Following the description of Ovseiko and Others (2015), the more serious the bureaucratization, the lower participation of employees in company operation, the higher risk of acquires being

“swallowed up” by a larger bureaucracy. With Chinese traditional collectivism preference, personal interests should be subordinated to the collective interests. Corporates have more probability to force individuals to follow up with managers’ decisions. Hence, in order to facilitate new company management, reduce management costs, and improve production efficiency, the greater possibility the company force to assimilate the merged.

Further, the company adaptation preference is relatively significant for the decision of the acquirer, but not so strong like other dimensions mentioned above. Eventually, for the rest, we cannot estimate their influence degree according to the questionnaire feedback in this model.

The result of the linear regression between corporation culture dimensions and the separation mode shows in the table 6.

Table 6. The liner regression between corporation culture dimensions and the separation mode

Model	Non-standard Coefficient		Standard Coefficient		T	Significance
	B	Standard error	Beta			
vertical-hierarchical contact	-0.145	0.056	-0.578		-2.599	0.018
centralized control of seniors	-0.184	0.045	-0.634		-4.086	0.001
adaptation preference	-0.231	0.07	-0.685		-3.327	0.004
matching degree of both culture	-0.115	0.055	-0.443		-2.092	0.05
staff turn-over rate	0.145	0.073	0.439		1.979	0.062
understanding of corporate missions from employees	-0.162	0.055	-0.588		-2.966	0.008
culture flexibility	-0.147	0.06	-0.551		-2.455	0.024
implementation by juniors	0.251	0.069	0.833		3.634	0.002
years of seniors be retained	-0.217	0.11	-0.38		-1.971	0.063

Coefficient: separation

Source. Sorting data according to the questionnaire survey

After checking and listing the statistic we get from the questionnaire, it can be displayed that compared with the integration

and assimilation, many corporate culture factors’ influences are very significant to the select of separation. What is interesting is that,

opposite to the assimilation mode selection tendency, the stronger the senior managers' centralization or hierarchical contacts, the less impact on the acquirer to separate the new acquired company.

In details, it is also important that contrast with integration, with the higher rate of staff turnover, it is more possible for enterprises to separate the new entity like establishing subsidiaries or retaining the original culture, in order to stabilize the mood of employees and reduce the production lost caused by the M&A turbulence.

For the seniors' retain, in practice, the longer of seniors' retain, the less probabilities for enterprises to choose separation mode. Top managers are most likely to leave after M&A for several reasons (PritchettChina, 2013). They may lose authority or position to feel pain because the adjustment of organizational structure, or do not like the new company's business philosophy and mission of development, or can not/ do not want to bear the uncertainty and pressure due to M&A (PritchettChina, 2013). If company take strategies to prolong the retention of senior employees, indicating that the seniors would be more stable and satisfied with the new company structure (Bijlsma-Frankema, 2001). While the shorter the retention period, the higher the senior turnover rate, which will cause company costing more time and money to spend to find new and suitable staff for company (Cai, N. & Y. Shen, 2001). The use of separate mode will be likely to produce seniors' psychological turmoil. So the longer the retention period, the more stable mind of seniors, the less likely for companies to take a separate type, in order to reduce the loss of turbulence.

Further, the understanding of employees' to company's future mission is negative to the separation tendency. This relationship can be explained clearly by Bijlsma-Frankema (2001) that "the more both groups have to rely on each other to realize these goals, the stronger these goals function as a starting mechanism for trust and co-operation. The more both parties consider the others as important contributors to the realization of the goals set, the less they are inclined to damage the others, since they would damage their own interests as well. The urge to find common ground in a dialogue will be stronger then, agreements will be reached in less time."

Apart from that, what is noteworthy is that if the culture matching degree is higher or the culture is more adaptable or flexible from both companies, the acquirer is less possible to select the separation way. While apparently, no clues show about the rest dimensions apparent influence on the separation selection tendency.

Lastly, from the questionnaire answers, we found that no objects response to the marginalization method. As PritchettChina (2013) argued that marginalization occurs when acquires are not willing to accept the buyer's culture, and at the same time lost its own identification. But in reality, this situation rarely happened.

6. Discussions and Conclusions

According to the statistic analysis of the above data, conclusion can be organized as follows: (1) Staff turnover rate is positive to the selection tendency of separation but negative to that of integration,

indicating that the higher rate of staff turnover rate, the more likelihood for Chinese enterprises to chose separation, while less to integration; (2) The influence of autonomy on decision-making by employees on the selection of integration is very significant with $p=0$, but is negative with the assimilation mode, indicating that the stronger of the empowerment of employees, the more possibility the selection of integration by Chinese enterprise for merging Germany firms; (3) The hierarchy of managers is positive to assimilation mode, but negative to separation, indicating that if in a company, the stronger power of seniors, the more likely for the merged to be assimilated by the acquirers; (4) Other corporate culture dimensions are inconspicuous to the choice of culture integration methods by Chinese enterprises in this survey; (4) The possibility of choosing marginalization after M&A by Chinese enterprises is rare; (5) The culture integration choice by Chinese enterprises is simplify due to the lack of experience.

Many M&A activities of Chinese enterprises in Germany are too casual and random, with no guide of systematic and mature cultural integration strategy (Wei, 2008). In particular, Germany businesses going to sell are generally plunged into serious business crisis, which require Chinese buyers have strong governance and rectification ability after taking over, which obviously are lacking in Chinese enterprises (Wei, 2008). Overall, so far, the scales of most M&As by Chinese enterprises are 10 to 40 million euros (turnover) or so, with considerable room for improvement (Wei, 2008). Hence, Wei (2008) further guessed that, with the increase of experience in the pre-evaluation stage and negotiation stage of M&A between China and Germany, there would be increasing successful cases in the future. Therefore, demands for worthy researches in the area of post-culture integration management would be increased with the development of the current economic condition (Wei, 2008).

Through this research, the influence corporate culture dimensions on the selection of culture integration modes by Chinese enterprises is shown, which will do favor to theorists to understand the corporate culture factors that influence the decision-making of Chinese entrepreneurs in the process of cultural integration after M&A with Germany.

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