Stockholm School of Economics
Master of Science in Business & Management, specialization in Management
Master thesis

Mittelstand-off: Implications for target firms of Sino-German Mittelstand acquisitions

Konstantin Klüpfel (40836) & Erik Wester (40840)

Abstract: Sino-German *Mittelstand* acquisitions of recent years have received significant attention from the German public, politics, and media. In addition to a perceived imbalance between Germany and China regarding the treatment of foreign acquisitions, the key concern is that these acquisitions could diminish Germany's competitiveness by resulting in layoffs, relocation of production facilities to China, and knowledge transfer. However, the implications for target firms have not been researched before in this specific context of light-touch integrations and only scarcely for other kinds of acquisitions. This study aims to identify and analyze the implications for target firms of Sino-German *Mittelstand* acquisitions and thereby both shed light on this phenomenon and contribute to the scarce literature on post-acquisition implications for acquired companies. For that purpose, we conducted an exploratory, qualitative study using an inductive research approach. We used three data sources: Interviews with 13 managers and three experts on the topic were conducted and several consulting reports were utilized. The collected responses were analyzed using a grounded theory approach. This study reveals three themes that are constructed by seven concrete implications for *Mittelstand* target firms. (1) Workforce implications: Decision-making power remains with the German top management and there have been little to no layoffs among either top management or employees. (2) Operations implications: Due to cultural differences and language barriers, firms have experienced efficiency losses. Besides, operations are affected by changes in the reporting system. (3) Resource implications: Some target firms experience new revenue generating opportunities, yet the target firms are mostly restricted in their access to capital. Further, the German brand as a corporate resource is untarnished by acquisitions. This study's substantive theory contributes to the nascent literature stream on the implications for target firms of recent Sino-German *Mittelstand* acquisitions and could form the basis of formal theory about implications for target firms of acquisitions made by emerging market multinational companies and firms in general.

Keywords: China, Germany, acquisition, M&A, implications

Supervisor: Peter Hagström

Presentation: Spring 2017

ACKNOWLEDGEMENTS

When you read this, we have handed in the last deliverable of our master's degree. With this thesis, we conclude a chapter in our lives and turn the page to new adventures. Submitting this thesis allowed us to reflect on the past months, which would not have been as rich in personal growth as they were without the support of a handful of key people. We are grateful to have been given the opportunity to meet and work with every single one of them.

First, we would like to thank the Stockholm School of Economics and two of our main contact persons within it, Peter Hagström and Karin Fernler. Peter helped us in narrowing down our topic, lent us a helping hand in the structuring and set-up of the thesis, and delighted us with his academic wisdom in discussing our topic. While our often hopeless and confused minds finally managed to produce a satisfying product, we hope that Peter found some joy in working with us, too. Similarly, we would like to thank Karin for her guidance and support with the thesis process. We are well aware that our questions were plentiful and certainly often seemingly obvious. Karin patiently answered all of them and pointed out other issues to consider.

Second, we would like to extend our gratitude to the interviewed managers and experts for their time and effort, without which this thesis would not have been possible. Whereas we would have liked to mention them by name to emphasize our appreciation, we will stick to our promise about their anonymity and just say anonymously yet not less heartily "Thank you!"

Third, we shall not forget our families and friends, whom we could fall back on during tough times. Like every exciting story, our thesis journey was also presented with challenges. Looking back, we acknowledge that those situations often offered the best learnings; back then however, we were just glad that we could complain about the thesis over a cold beer at Hirschenkeller with friends and classmates from our management program. Similarly, our families encouraged us to focus on the positive aspects as opposed to frown due to hurdles.

And lastly, we must thank those who provided the fuel for our bodies. Without the constant influx of coffee from Panini or Pressbyrån we would not have been able to survive. While we could not obtain data on this issue, rumor has it that we contributed a major part to Panini's and Pressbyrån's revenues in any given month during the thesis process. Completing our "coffee-stamps" loyalty cards every other day surely serves as a proxy to fuel this speculation.

With our gratitude extended, we no longer wish to stop you from embarking on a learning path about German firms, Chinese investors, and acquisition activities. We hope you enjoy the read and find it pleasant and insightful.

Konstantin L.T. Klüpfel

Erik W. Wester

TABLE OF CONTENTS

LIST OF FIGURES

1. INTRODUCTION

This chapter highlights the study's topicality. Likewise, this chapter points out the purpose of this study and presents its outline.

1.1 Background

The relevance of the study is explained in this part.

1.1.1 Chinese investments in Germany

"That China will become the factory of the world is perhaps correct but who will build this factory? Germany" (Financial Times, 2016b). This statement by a former professor at the Universities of Mainz and Bielefeld is his way to describes the relationship between China and Germany. It is this relationship that has been subject to discussion considering the late Chinese investment behavior in Europe and particularly in Germany.

The European Union is China's largest trading partner (Levinger and Hansakul, 2016). The increasing importance of the European-Chinese trade relationship is illustrated by the exponential growth of Chinese investment in Europe from 2000 to 2014 (MICSRG, 2015). Particularly, Chinese investment stock in Europe was close to 0 in the mid-2000s but reached €14bn in 2014 (MICSRG, 2015). This surge in investments in Europe coincides with a changing focus of Chinese investments regarding target countries. Early Chinese outward foreign direct investment (OFDI) has been directed towards emerging economies rich in natural resources; now, developed economies rich with brands and technology have gained in importance (MICSRG, 2015).

With a plethora of attractive investment opportunities across different sectors, Germany is an interesting target of Chinese OFDI. Chinese companies invested $10.8bn in Germany from the beginning of 2016 until mid-2016 – more than in all previous years combined. In six months, Chinese companies bought 37 German companies, compared with 39 acquisitions in the whole year of 2015 (Financial Times, 2016a). Moreover, *"the opening of the Chinese Foreign Chamber of Trade in Berlin in January 2014, the setting up of the new clearing bank for businesses with Renminbi in Frankfurt[,] and the opening of new branches of the Industrial and Commercial Bank of China (ICBC) are all clear indications that investment by Chinese companies in Germany is on the rise"* (CNC Communications, 2014, p. 4).

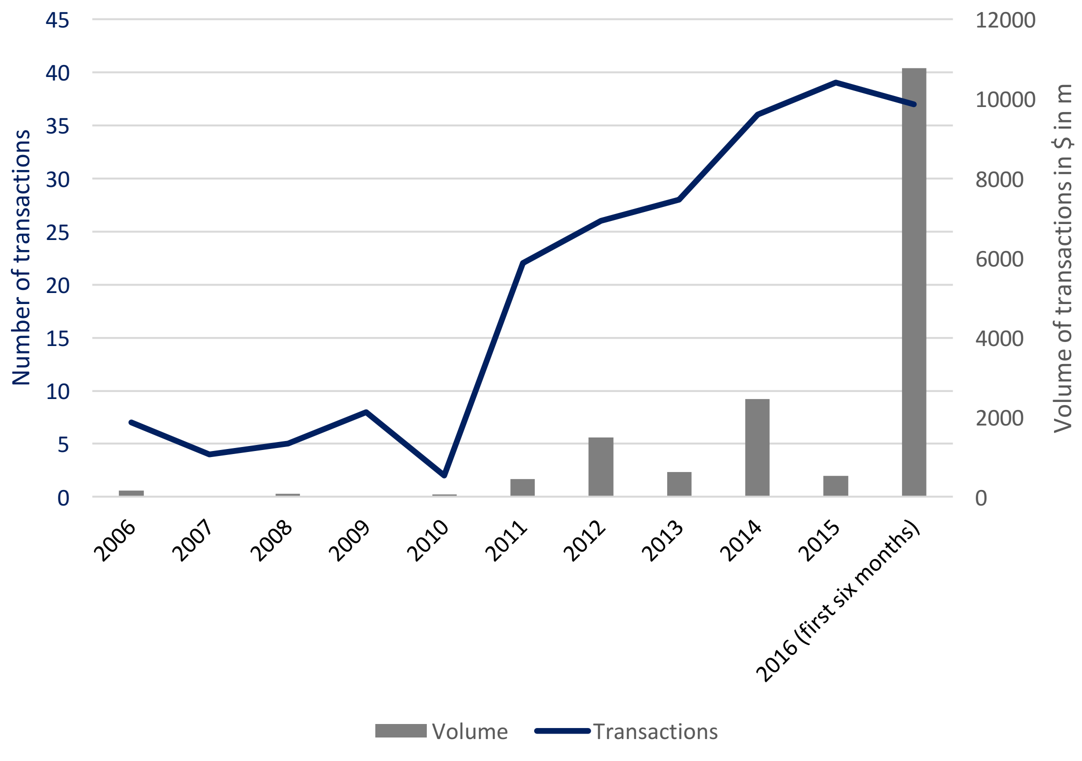

Figure 1: Chinese investments in Germany (EY, 2016)

Both privately-owned enterprises (POEs) and state-owned enterprises (SOEs) drive the global ambitions of Chinese investors. While the increase in OFDI from China to Europe is mostly caused by POEs, SOEs still play a big role in this development (PwC, 2016). This is even more so the case for Germany, where the share of investments from SOEs is higher than the European average. More than 60% of the total transaction volume originates from firms in which the Chinese state has a stake of above 20% (MICSRG, 2015). Industries such as automotive and industrial products appear to attract the most interest from Chinese investors (MICSRG, 2015; PwC, 2016).

1.1.2 What is the German Mittelstand

The German *Mittelstand*, though hard to define, is a vital component of the German business landscape and poses an appealing target for knowledge seeking investors. Often referred to as the backbone of the German economy, *Mittelstand* firms possess advanced know-how, which has helped them to become leaders in producing high-quality and technologically advanced products (The Economist, 2016a). Therefore, Chinese investors that are aspiring to obtain advanced know-how are keen on acquiring such firms. According to the Institut für Mittelstandsforschung (2016a), a German foundation that closely follows developments regarding these small and medium-sized companies in Germany, the definition of *Mittelstand* consists of two factors: property and management. In a *Mittelstand* company "*up to two [physical] persons or their family members (directly or indirectly) hold at least 50% of the shares of an enterprise. These (…) persons also belong to the management.*" The quantitative definition of *Mittelstand* describes that companies belonging to this group must have less than €50m in annual revenues and less than 500 employees. Based on the quantitative criteria, the Mittelstand represented almost 100% of all companies in Germany and employed around 60% of the German workforce in 2014 (Institut für Middelstandforschung, 2016b). However, even companies that would not be considered as a *Mittelstand* firm from a quantitative point of view can be counted to the *Mittelstand* when the criteria of property and management are fulfilled (Institut für Mittelstandsforschung, 2016a). This is supported by Ludwig Erhard, a former German Minister of Economic Affairs, who argued that *Mittelstand* firms are characterized by their behavior rather than by numbers (Rüstow et al., 1956, cited in Beckmann, 2009, p. 130).

1.1.3 Contrasting reactions from stakeholders

Public and political reactions to Chinese investors acquiring firms from the *Mittelstand* diverge. MICSRG (2015) claimed that fears of Chinese investments negatively influencing local employment and innovation capacity are often overblown. Hence, some said that there was no reason to worry when the Chinese firm Midea[1] bought the German robotics manufacturer Kuka[2] in 2016 in what was the biggest takeover of its kind at that time, at a value of €4.5bn. So far, they seem to be right. To live up to Midea's goal of reassuring the German public about its good intentions, the buyer promised a hands-off approach as well as job security (Financial Times, 2016a). This strategy is in line with other examples in German news. For instance, an article in the FAZ makes the case that Chinese investors only interfere with the business of a German target company when it comes to budgeting and reporting (Frankfurter Allgemeine Zeitung, 2016).

Nevertheless, there is a widespread negative attitude towards Chinese investors. A popular example for this was the acquisition of Kuka by Midea, despite Midea's efforts to comfort the public as mentioned above. As a response to Midea's bid for Kuka an article enquired, *"is Germany's Industry 4.0 for sale?"* (Mercator Institute for China Studies, 2016). Based on observations about frightened reactions from employees, the Financial Times (2016a) declared that the acquisition of Kuka is a *"cause for widespread German angst."* Responses from German politicians were just as negative. Sigmar Gabriel, Germany's deputy chancellor, publicly voiced the wish for *"at least one"* counterbid from Germany or Europe (Financial Times, 2016a). Angela Merkel, Germany's chancellor, reportedly joined the gloomy viewpoint. And whereas the Kuka deal was a publicly discussed corporate takeover, even rumors about a Chinese acquisition are wildly displayed on various news, such as the potential acquisition of Osram[3] in fall 2016 (Yahoo Finanzen Deutschland, 2016). *"German companies are often uneasy about these deals. This is characterized by the fear of losing strategic freedom, of uncontrolled "technology transfers" and of job losses — perpetrated by nameless, faceless Chinese investors,"* noted CNC Communications (2014, p. 3), a consultancy. In turn, German media builds on public worries and uses catchy headlines whenever the topic is subject of discussion. *"China is buying: The dragon is hungry,"* read another popular German business newspaper in early 2016 when Chinese investments increased heavily, for instance (Handelsblatt, 2016).

Around 75% of people interviewed for an article called *"China's march through Germany"* think that China has become too powerful (Capital, 2016). The skepticism is understandable considering negative experiences with Chinese investors. One such negative example is the case of the airport Lübeck, in which poor research about the acquirer Chen Yongqiang and doubtful motives to sell

[1] Midea is in the home appliances industry and has its headquarters in Foshan, China.
[2] Kuka is a supplier of intelligent automation solutions. It is headquartered in Augsburg, Germany.
[3] Osram is a lighting manufacturer that has its headquarters in Munich, Germany.

to him – the desire to have an airport seemed higher than profitability considerations – caused losses of €0.5m per month and led to many unanswered questions. For instance, the Chinese investor promised to attract 2,000 Chinese pilot trainees in the first year of operations, which is the amount of pilot trainees in Germany overall. This would require both the airport to own 80 planes, equal to 10% of the global production of planes for teaching purposes, and Germany to have weather conditions like in South Africa or Florida (Zeit Online, 2016a). Empty promises are what remains from this incident.

Furthermore, given the interweaving of business and politics in China, German politics and public alike might easily be tempted to look at the investments from China with suspicion. It is often not obvious whether a Chinese company is entering the German market as a market actor or as an *"extension of the Chinese government's arm"* (The Economist, 2016b). The Hans Böckler Stiftung (2013) stated that there is a grand plan of the Chinese government behind the acquisitions. With regards to the latest developments in Germany, Sigmar Gabriel contemplated Chinese behavior as *"conspicuous"* (Zeit Online, 2016b).

1.2 Purpose

There is little to no research on the implications for target firms of Sino[4]-German *Mittelstand* acquisitions. Liu and Woywode (2013) presented some ideas with regards to what the implications for top management, employees, and cultural issues can be, but they did not cover further consequences that could result from these acquisitions. Most noteworthy, they did not account for the conceivable implications that have been causing concerns in Germany, namely issues regarding technological know-how of the *Mittelstand*, potentially disproportionate involvement of Chinese politics, and the overall fear about the unknown Chinese investors that could result in frightened employees and empty promises. Studying this recent phenomenon, this thesis intends to contribute to the discussion and shed light on potential advantages and disadvantages from the perspective of the acquisition target. Therefore, the purpose of this study is to answer the following research question:

What are the implications of Chinese acquisitions for German *Mittelstand* firms?

By providing insights into this topic, we hope to add to the research area of post-acquisition implications for target firms and satisfy the need for clarification about how to assess the specific case of increasing Chinese investments in Germany. Bryman and Bell (2011) suggested that new phenomena are best examined by using an explorative study to capture the intricacy of the matter at hand. In using an explorative design, we will contribute to academia in two ways. First, we will engage in a rational assessment of the situation and offer explanations that hopefully settle discussions about whether Chinese companies buying German *Mittelstand* firms are a blessing or a curse. Second, we will provide relevant theoretical material to the post-acquisition literature stream from the point of view of target companies.

[4] Rooted in Latin, *Sino* is a prefix that is used for terms concerning China.

1.3 Thesis outline

To answer the research question and gain insights into the topic at hand, the thesis is structured into seven chapters. (**1**) The thesis began by **introducing** the phenomenon to be studied and by highlighting the relevance to answer the research question. (**2**) The next chapter will explain the **method** towards answering the research question, elaborate on data collection efforts, and discuss the data quality of this study. (**3**) Next, existing **literature** will be reviewed to reach an initial understanding of the phenomenon under examination. (**4**) Thereafter, the study will present the **findings** that resulted from the data collection from consulting reports, expert interviews, and manager discussions. (**5**) Building on the empirical findings, this study will **analyze** the collected data and thereby answer the research question. (**6**) The following chapter will conclude the findings and provide a **summary** of the analysis. (**7**) This thesis will finish with a **discussion** on future developments, on both limitations and contributions of the study, and on implications for practice and theory.

2. METHOD

This chapter describes the methodological fit and research approach and explains the data collection and analysis. It ends with considerations of data quality and ethics.

2.1 Methodological fit

Since the phenomenon of Chinese acquisitions in Germany and their implications for target firms is poorly understood, this thesis is conducted as a qualitative study (Edmondson and McManus, 2007). This helped us to go beyond the obvious and acquire a deeper understanding of the study's object (Holme, Solvang and Nilsson, 1997; Yin, 2010). Based on our aspiration to extend organizational knowledge, a qualitative design was deemed helpful (Glaser and Strauss, 1967; Eisenhardt, 1989; Miles and Huberman, 1994; Lee, Mitchell and Sablynski, 1999). To grasp the complexity and richness of the phenomenon and to account for the small existent literature on this topic, we opted for an exploratory approach (Bell, 2014). This ensured openness towards topics that emerged from the data and allowed for adapting the study accordingly. The resulting iterative approach of switching back and forth between data collection and analysis enabled us to follow up on promising issues while neglecting less relevant topics (Edmondson and McManus, 2007).

Two limitations resulted from our approach. First, a quantitative aspect would have increased transferability of our results (Flick, 2009). However, we decided intentionally against a mixture of qualitative and quantitative research, a hybrid study, since we expected to improve the quality of our thesis by focusing solely on exploring and learning about our object (Edmondson and McManus, 2007). Nonetheless, we recommend other researchers to advance our findings by engaging in a quantitative study on the topic (Fine and Elsbach, 2000). Second, the overlap of data collection and analysis impeded us from systematic sampling and hence from making statistical inferences (Edmondson and McManus, 2007). Although we could not avoid this issue as it directly results from the design of our study, we acknowledge it and suggest that it does not negatively impact our findings.

2.2 Research approach

The research approach of this thesis is inductive. While a deductive study begins with frameworks that have been built based on existing theory, an inductive approach follows a bottom-up approach by starting from the empirics of a new phenomenon and attempting to build theory from there (Bryman and Bell, 2011). The scarcely researched recent Sino-German *Mittelstand* acquisitions can be expected to lead to different implications than other kinds of acquisitions. Given that most literature on post-acquisition implications for target firms rests on several assumptions, for instance that integration has taken place, it would be misleading to perform a deductive study based on that literature. Therefore, we chose a strongly inductive approach.

We began the research by studying the limited body of academic literature on recent Sino-German acquisitions and their implications for target firms. This helped us to acquire an initial understanding of the matter at hand. Next, we conducted an exploratory pilot interview with a target firm's manager to understand the perspective of people directly involved in this matter. The subject of the pilot interview was identified through media articles in which the subject appeared to be having substantial first-hand experience in this field and an educated opinion. Based on our initial research and the pilot interview, we created two types of interview guides that were used in the interviews: one for companies and one for experts. The data was collected and analyzed in parallel and the interview guides were refined along the way in line with emerging patterns and topics of seemingly particular importance (Edmondson and McManus, 2007). By allowing theory to emerge from the empirics, we could create substantive theory (Reason and Rowan, 1981). A post-study ensured that we could both clarify remaining uncertainties and broaden our understanding of the case as we asked interviewees to prepare for the interviews (cf. data collection).

2.3 Development of literature review

We chose literature based on its relevance for the specific case at hand. We first performed searches on Google, Google Scholar, and EBSCO for academic literature, using combinations of the following search terms: China, Germany, emerging economy, acquisition, M&A, integration, benefits, disadvantages, consequences, outcome, impact, ramification, and synergy realization. Next, we collected the most relevant results based on the relevance filter of the search engine, which is considered a reasonable tool (Beel and Gipp, 2009). To ensure that our literature review was up to date, we consulted a professor teaching M&A courses at the Stockholm School of Economics. Thereafter, we added more literature based on citations in the initial literature. Further literature searches were made throughout the analysis in accordance with topics that emerged from the collected data.

2.4 Collection of empirical data

This part illustrates the sampling method, describes our sample, and critically discusses the adequacy of its use.

2.4.1 Data sampling

The data sampling is presented below, differing between consulting reports, expert interviews, and interviews with managers of affected firms.

Consulting reports

Like the search for academic literature, we used a combination of the following search terms in Google to find appropriate consulting reports: China, Germany, emerging economy, acquisition, M&A, integration, benefits, disadvantages, consequences, outcome, impact, ramification, and synergy realization. Consulting reports cannot be assumed to be free of inaccuracies and distortions (Scott, 1990). Therefore, we evaluated them based on Scott's criteria of authenticity and credibility (Scott, 1990) by using only established and independent consultancies.

Expert interviews

We conducted three in-depth, semi-structured interviews with experts: a corporate finance managing director at a financial services firm, an editor of a journal on Sino-German acquisitions, and a political representative from the German Federal Ministry for Economic Affairs and Energy. We reached out to a total of 12 experts, which had been identified based on consulting reports and academic articles. If we did not reach the person with whom we wanted to talk, we followed up on the call with an email. If we did not receive a reply within seven days, we sent out an email reminder, and if necessary followed up by another reminder another seven days later. We tried to gain access to experts from China but were unsuccessful in our attempts, mainly because the recent Sino-German *Mittelstand* acquisitions seem to have primarily been covered by European experts. The political representative was referred to us by the Federal Minister of Economic Affairs and Energy, Sigmar Gabriel.

Manager interviews

We collected data from targets of Chinese acquisitions in the *Mittelstand*. Nonetheless, to understand the underlying reasons for why target firms experienced certain implications, we also needed to comprehend the buyers' perspective. However, we only gained indications of their opinions through the views of the German managers. The idea of building and maintaining relationships and friendships (guanxi) with one another plays a major role in the Chinese culture (Su and Littlefield, 2001). Hence, *"individual interests often come second to those of the group"* since people *"exist for the benefit of the group"* (Wang et al., 2005, p. 315). In other words, even if we had interviewed Chinese buyers it is less likely that we would have gotten truthful answers about potentially unfavorable facts than from Germans because of interviewees' attempts to preserve "the group." We believe that substituting the Chinese companies' perspective through experts avoided this issue, yet we acknowledge the lack of access to Chinese managers as a limitation.

In total, we conducted 13 in-depth, semi-structured interviews with representatives of five *Mittelstand* companies that have been acquired by Chinese firms during the period of Q4 2010 to Q4 2014. We used a purposive case selection approach to choose companies that were most appropriate for our study (Seawright and Gerring, 2008). First, we compiled a database with 120 acquisitions of German companies by Chinese investors. Since we could not find an official database we used consulting reports and business press articles. We found these reports and news by using combinations of the search terms "German, Chinese, Germany, China, acquisition, M&A, list" and the German translations of these terms. Second, we identified 91 suitable partner companies for our study by applying two criteria to this list of acquisitions: point of time of the acquisition and belongingness to the *Mittelstand*. We increased the representativeness of our sample by choosing the time frame when most acquisitions happened. Chinese outbound investments experienced an increase of around 700% from Q3 2010 to Q4 2010 (Financial Times, 2011) and have continued to rise ever since (MICSRG, 2015). We therefore opted for only including acquisitions from Q4 2010 until the point of time when we conducted the research, namely the beginning of Q3 2016. Next, we conducted research about all remaining companies with regards to their qualification for the label "German *Mittelstand*." We followed the advice of Ludwig Erhard, who asserted that you can best capture the belongingness to the *Mittelstand* by those firms' behavior in society, economy, and politics (Rüstow et al., 1956, cited in Beckmann, 2009, p. 130). Consequently, we used a variety of qualitative sources to categorize the companies, such as the firms' homepages, news websites, and newspaper articles that specifically defined a company as belonging to the *Mittelstand*.

Thereafter, we began to chronologically (based on the year of the acquisition) approach the 91 companies first by phone and then email. We reached out to companies from 2010 first as we assumed to find clearer implications for target firms due to the longer time since the acquisition. The goal was to reach top management and other senior team leaders as our pre-study showed that this would increase the depth of our data. After the call, if we did not receive a reply to our subsequent email within seven days, we proceeded as with the experts. When we realized that additional interviews only added marginal value (topics recurred) in relation to the time and effort we must spend on each, we decided to refrain from contacting companies that were acquired in 2015 and 2016. Consequently, we contacted 49 out of 91 companies.

Out of all 49 companies contacted, five companies agreed to participate in our study. Reasons for rejection were either a lack of resources that could be committed to helping us or existing research partnerships with German universities that are examining a similar topic. After we secured the study sample, we talked to a top executive first and then relied on the snowballing manner – a referring system in which one study subject pointed us to the next one – to recruit further interviewees and increase the breadth of our data (Bryman and Bell, 2011). The additional employees were picked based on their belongingness to specific departments, which emerged from the analysis of our initial interviews and the executives' judgement.

2.4.2 Data collection

The data collection process is split into expert interviews and manager interviews.

Expert interviews

The three expert interviews were conducted with a different area of focus for each. The interviews with the consultant and editor each took around 45 minutes and were conducted via phone. Both interviewees agreed to our request to record the interview. The interview guide was structured along four dimensions: introduction, motivation of Chinese investors, mode of FDI, and outcome of the investment. The three sections following the introduction were designed with open questions to explore various areas, which were followed by more detailed inquiries (cf. manager interviews). The interview with the political representative was split into an introduction and semi-structured discussion part. This interview took 20 minutes and was conducted via phone. Questionnaires have not been sent out prior to the interviews to avoid preparation from the interviewees and receive spontaneous answers (Flick, 2009). We conducted the interviews in English and transcribed parts of them afterwards to ensure we captured the relevant issues.

Manager interviews

The 13 interviews are comprised of one pilot interview, eight interviews in the main study, and four interviews as part of a post-study. We collected the data in phone interviews of an average length of 45 minutes. The interviews were directed by a semi-structured interview guide developed from the pilot interview and consisted of three parts. (1) In the introduction, we introduced the thesis topic. By offering anonymity we minimized the risk of receiving biased answers because of interviewees misunderstanding the question or wanting to avoid being portrayed negatively

(Silverman, 2013). (2) The acquisition background helped starting with neutral facts about the event and building a connection with the interviewee. (3) The focus of the interviews was on the acquisition implications, which is where the main points of interest for our study were discussed. We first used general and open questions to gain insights about areas that we did not think of previously (Gillham, 2005) and to not bias the interviewees (Flick, 2009). These questions were followed by more detailed questions about specific parts of the organization based on the pilot interview and the literary findings. The emphasis within each interview varied as we identified topics of importance that we wanted to explore in more detail. This also reflects our intertwined approach of collecting and analyzing the data and the explorative nature of our study (Edmondson and McManus, 2007).

To receive spontaneous reactions, we did not send out the questionnaire prior to the interviews in the main study (Flick, 2009). Yet, in our post-study we sent out the questionnaire in advance so interviewees could prepare (Saunders, Lewis and Thornhill, 2009). With the interviewees in the post-study being prepared, we ensured that we had covered all spontaneous thoughts and issues in the main study and additionally gained a broader understanding of the phenomenon. We could record most interviews and conducted them in German to allow the interviewees to express themselves in their mother tongue, which led to richer answers. To complement the written documentation with missing quotes and topics, we transcribed parts of the discussions. Then, we translated them into English. We are conscious of the risk of losing the real meanings in the translation process but attempted to counteract this by translating the interviews within 24 hours after the discussion (Flick, 2009).

2.5 Data analysis

This chapter explains our analysis method and comments on the quality of the study's data.

2.5.1 Choice of method

Qualitative data analysis has not reached the same degree of codification that quantitative data analysis has (Bryman and Burgess, 1994b, cited in Bryman and Bell, 2011, p. 571). Instead of rules, there are broad guidelines for how to analyze qualitative data (Okely, 1994, cited in Bryman and Bell, 2011, p. 571). One such guideline is grounded theory. Grounded theory is concerned with developing theory out of data. Its analytical process is iterative in that the data collection and analysis repeatedly refer to each other (Strauss and Corbin, 1998, p. 12, cited in Bryman and Bell, 2011, p. 576). Locke (2001) argued that grounded theory is particularly helpful for capturing complexity and facilitating theoretical work in areas that have not been well researched by others. By applying grounded theory to the case setting of this paper, we hoped to benefit from such advantages.

2.5.2 Grounded theory

In accordance with grounded theory, data collection and analysis were interweaved. We coded emerging data as we collected it, letting our interpretations of the data shape our codes (Charmaz, 2008). We used these codes to label, separate, compile, and organize our data (Bryman and Bell, 2011) in a three-step process that turned raw notes into codes and then into categories. Coded indicators were constantly compared throughout the analytical process to maintain a close connection between data and conceptualization and to ensure that theoretical elaborations of categories could emerge (Bryman and Bell, 2011). We gathered data until we considered our understanding of the studied phenomenon saturated. Based on a combination of related literature and our findings, we could generate propositions for future testing, called substantive theory (Bryman and Bell, 2011). This substantive theory regarded what implications targets of recent Sino-German acquisitions in the *Mittelstand* experience and why (Sutton and Staw, 1995) and can be turned into formal theory and made generalizable once tested.

2.5.3 Data quality

We attempted to achieve high data quality by aspiring to high levels of both reliability and internal as well as external validity (Bryman and Bell, 2011).

Reliability

Reliability concerns the dependability of procedures and data (Flick, 2009), explaining how well the results of a study can be replicated under equal circumstances. While we are aware that transferability of our results is limited (Flick, 2009), we argue that we have taken measures to counteract this. To increase the reliability of our study, we used a highly transparent case selection process. We did so by conducting a pilot study to test the dependability of our procedure, by recording and taking formal notes during interviews, by clearly stating the difference between statements by interviewees and own interpretations, and by continuously reviewing the interview procedure to ensure comparability between results (Flick, 2009). Further, we used cases that are most like the general population (Seawright and Gerring, 2008).

Validity

Validity describes how accurate the study is. There are two kinds of validity: internal and external.

Internal validity

Internal validity explains whether researchers see what they think they see (Bryman and Bell, 2011). It pertains to what degree there is a match between researchers' observations and the interpretations they develop (LeCompte and Goetz, 1982). Sometimes, researchers construct a conscious or unconscious biased version of reality, causing mismatches between observations and interpretations (Flick, 2009). To avoid this, it is important to consider both the collection of data during the research process and the presentation of the phenomenon in the finalized study (Flick, 2009).

To prevent invalidity in the data collection phase, we focused on open-ended questions, allowed interviewees to respond without interference, avoided sharing the answers of other interviewees, and asked the same questions to different people within the same organization (Flick, 2009). In presenting data, researchers face two validity risks. First, interpreting data in ways that others would not (Silverman, 2013). Second, not considering alternative explanations (Huitt, 1998). We could not eliminate these two risks completely but we did reduce them by analyzing the data individually before reaching a consensus on how to interpret the results.

External validity

External validity judges whether results are generalizable outside of the research context in which those results were generated (Lincoln and Guba, 1985). To ensure external validity, we attempted to describe the empirical context of our study as clearly as possible. Moreover, we made sure to interview as many managers as necessary to assure that further interviews would not have added new insights. Besides, we compared our findings from interviewing company representatives with the views of experts in the field of Sino-German acquisitions. However, we make no claim that our findings are generalizable outside the scope of Sino-German acquisitions from Q4 2010 to 2016.

2.6 Ethical considerations

It was important for us to ensure that our interviews were done in an ethically correct way. This means that our interviewees were neither forced nor incentivized into cooperating with us, they were offered anonymity, they all knew of the purpose of our research prior to the interviews, and the finalized report has been sent to all respondents. At the same time, this helps to ensure an objective approach from interviewees (Bryman and Bell, 2011; Blumberg, Cooper and Schindler, 2014).

3. LITERATURE REVIEW

This chapter reviews academic literature to understand (1) motivations for acquisitions, (2) post-acquisition integration as a way of realizing acquisition goals, and (3) general impacts that different integration strategies might have on the target firm. Each of these three streams of literature extensively influences post-acquisition implications for target firms or directly examines the same. The emphasis of this chapter will be trying to understand what the implications for *Mittelstand* target firms after an acquisition by Chinese investors might be. Since research on multinational corporations (MNCs) from emerging economies (EEs) acquiring both companies in EEs and in developed economies (DEs) is limited, we complemented EE literature for each of the above three areas with general research that is mainly based on MNCs from DEs. MNCs from DEs are hereafter referred to as DMNCs and MNCs from EEs are referred to as EMNCs.

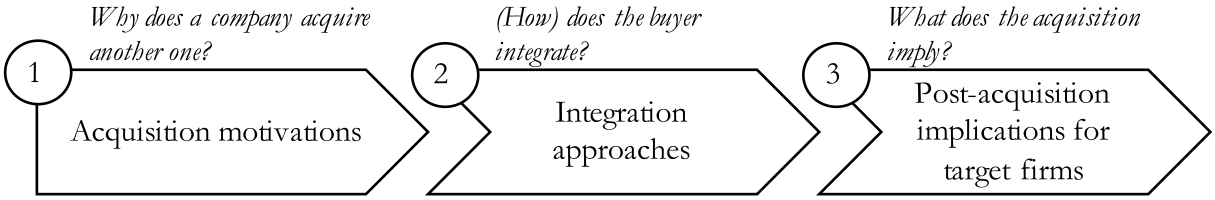

Figure 2: Literature streams that concern implications for target firms

3.1 Acquisition motivations

This part discusses different motivations for acquisitions, starting with a general introduction to motivations and then looking at the case of EMNCs.

3.1.1 Motivations in general

Both relatedness (Salter and Weinhold, 1981) and strategic fit (Haspeslagh and Jemison, 1991) of an acquisition determine what synergies the buyer is looking for, what integration approach the buyer will adopt, and what the resulting implications can look like.

There are related and unrelated acquisitions (Salter and Weinhold, 1981). Related acquisitions can be both supplementary (obtaining new product markets) and complementary (obtaining new resources). Firms use related investments to achieve economies of scope or scale or greater cost efficiency through backward or forward integration (Singh and Montgomery, 1987). Per Singh and Montgomery (1987), such investments are close to the firm's current knowledge and therefore provide opportunities to improve current product-market domains or technology domains. Conversely, firms employ unrelated investments to enter new product-market domains or technology domains (Nahavandi and Malekzadeh, 1988). Unrelated acquisitions make it difficult to build on existing routines but facilitate new learning (Nahavandi and Malekzadeh, 1988). All in all, related investments are more likely to be exploitative and unrelated investments are more likely to be explorative in nature (March, 1991).

Acquisitions in which the buyer intends to interact with the target firm are called strategic acquisitions (Haspeslagh and Jemison, 1991). These acquisitions are often characterized based on the level of relatedness between the buyer and the target. Haspeslagh and Jemison (1991) further referred to acquisitions in which the buyer has no such intentions as holding acquisitions. Holding acquisitions are fundamentally different form strategic acquisitions since the buyer's primary interest lies in creating value through risk-sharing. Such risk-sharing is achieved through the diversification of an investment portfolio of assets in other companies (Haspeslagh and Jemison, 1991).

3.1.2 Motivations of EMNCs

Research (Child and Rodrigues, 2005; Deng, 2009) claimed that Chinese firms primarily internationalize to explore new assets rather than to exploit existing ones. Asset exploration, or absorptive capacity, is best facilitated through hands-off integration. Liu and Woywode (2013) also described long-termism and a willingness to learn as key contributors to the Chinese' choice of strategy. First, Liu and Woywode (2013, p. 479) argued that *"[the] long-term orientation of Asian cultures may fundamentally affect the choice of integration mode. Chinese firms unanimously view the cross-border acquisitions as a long-run investment. They may not expect immediate returns from cross-border acquisitions; instead, they emphasize the joint growth potential."* Second, one of the most important motives for pursuing global strategies is learning (Mathews, 2006; Sun et al., 2012), which also holds true for Chinese acquisitions (Liu and Woywode, 2013). While literature suggested that EMNCs perform strategic but often unrelated acquisitions in which the goal is to explore new assets, it has not been established how exactly those findings influence the implications for DE target firms. For instance, Liu and Woywode (2013) offered insights into how the Chinese firms' motivation and culture might impact their integration strategy, yet missed to fully explore which implications this renders to German target firms.

3.2 Integration approaches

Building on integration motivations, this part elaborates on different integration approaches. Again, a general overview that is based on DMNCs precedes the study-specific EMNC realm.

3.2.1 Approaches in general

The accumulated knowledge on acquisitions emphasized the importance of the post-acquisition integration process, which facilitates the realization of synergies (Cannella and Hambrick, 1993; Larsson and Finkelstein, 1999). Based on the strategic objectives of the buyer and the relatedness of the merging firms (cf. acquisition motivations), different integration approaches are preferable. Whereas exploratory focused acquisitions, in which the buyer seeks knowledge, tend to result in preservation, exploitative acquisitions, in which the buyer seeks synergy realization, tend to lead to absorption.

Capability transfers are the precursors of synergy realization in acquisitions (Haspeslagh and Jemison, 1991). To what extent capability transfers occur is determined by the integration approach being used. Integration approaches differ with regards to the (i) need for organizational autonomy and (ii) strategic interdependency. The first dimension explains to what extent strategic capabilities of the target firm need to be preserved. The second dimension relates to the nature of interdependence that must be established between the two firms to enable successful capability transfers (Haspeslagh and Jemison, 1991). These two dimensions result in different integration approaches in strategic acquisitions: preservation, symbiosis, and absorption. Preservation provides a low level of integration, symbiosis indicates a moderate level of integration, and absorption represents a high level of integration (Haspeslagh and Jemison, 1991).

		STRATEGIC INTERDEPENDENCE	
		Low	**High**
ORGANIZATIONAL AUTONOMY	**High**	Preservation	Symbiosis
	Low	(Holding)	Absorption

Figure 3: General post-acquisition integration approaches (Haspeslagh and Jemison, 1991, p. 145)

The highest degree of integration, absorption, has the greatest potential for synergy realization. It is characterized by assimilation of the target into the acquiring firm's operations, full consolidation of the operations of the two firms, significant degrees of change, and little autonomy for the target (Liu and Woywode, 2013). Yet, this does not imply that a high degree of integration is always the best option. In some acquisitions synergy realization is not the primary goal. These acquisitions are either holding acquisitions or strategic acquisitions with a low need for strategic interdependence but a high need for organizational autonomy, called exploratory acquisitions. In case of such acquisitions, a deterioration in the acquired company's way of managing or in the motivation of its employees could endanger success. Consequently, in these cases the lowest degree of integration, preservation, is the most appropriate integration approach. Despite the lack of integration, the preservation approach does not imply a complete lack of value-creation. The acquirer can still offset premiums paid by nurturing the ambition, risk-taking, and professionalism of the target firm's management team. Another important source of value-creation is that the buyer can acquire knowledge through its exploration into the region in which the acquisition has taken place (Haspeslagh and Jemison, 1991).

Successful integration depends on two tasks: (i) the strategic task of successfully sharing value creating skills and resources and (ii) the organizational task of preserving any unique characteristics of an acquired firm that are a source of key strategic capabilities (Haspeslagh and Jemison, 1991). However, in many cases managers of post-acquisition integrations tend to focus more on strategic tasks than on organizational ones, leading to unsatisfying results (Pablo, 1994). Pablo (1994) showed that poor integration strategy and management leads to poor acquisition performance, both in terms of too much and too little integration.

	PRESERVATION	SYMBIOSIS	ABSORPTION
Purpose	Realize synergies is NOT the key strategic goal	Create a combined firm that reflects core competencies and best practices of two firms	Achieve scale economies and exploit synergies
Synergy potential	Low	Moderate/High	High
Cultural differences	High	Moderate/High	Low
Boundary conditions	Maintain	Protection and permeability	Dissolve
Operational characteristics	Intact strategic resources and capabilities of target Grant autonomy and decision-making power to target Provide resources to target when needed	Leverage strategic interdependence Target management remains some operational responsibility Transition management structure to coordinate	Assimilate target into acquiring firm's operations Consolidate fully the operations of two firms Significant degrees of change and low autonomy for the target

Figure 4: Characteristics of post-acquisition integration approaches (Liu and Woywode, 2013, p. 472)

3.2.2 Approaches of EMNCs

EMNCs express partly different patterns compared to DMNCs in terms of how they interact with companies they buy. This is particularly true regarding structure, activities, top executives, autonomy, and speed of integration (Kale, Singh and Raman, 2009). EMNCs want strong management, superior technology, and renowned brands from their investments. Consequently, they keep integration activities at a minimum. Kale, Singh, and Raman (2009) labelled this approach "partnering" but it corresponds well with the preservation approach described by Haspeslagh and Jemison (1991; cf. approaches in general).

According to Kale, Singh, and Raman (2009), there are four reasons why EMNCs tend to use a partnering approach. First, many EMNCs have found that the costs outweigh the benefits of integration. Particularly, integration activities are complex and consume significant chunks of top management's time. In the process, organizational morale can dip and employee turnover can soar. Second, EMNCs engage in acquisitions to gain control of established brands. By keeping integration activities at a minimum, they can take full advantage of their target companies' brands.

Third, some EMNCs simply lack the capabilities to manage complex integrations. Fourth, the conglomerate management style prevalent in EMNCs predisposes them towards a partnering approach. However, EMNCs do not forego the realization of synergies altogether. Instead, they attempt to realize them selectively. They do so by focusing on realizing synergies that will not disrupt the target firm and that can produce quick wins, such as integrating the raw material purchasing functions. Nevertheless, there are also disadvantages of partnering. For instance, it is arduous to lay people off – an easy cost reduction – and still maintain a high morale among employees (Kale, Singh and Raman, 2009).

	INTEGRATION	PARTNERING
Structure	Absorb acquired company	Keep acquired company separate
Activities	Integrate core and support activities	Selectively coordinate a few key activities
Top executives	Replace	Retain
Autonomy	None, or very limited	Near total
Speed of integration	Rapid	Gradual

Figure 5: EMNCs post-acquisition approach (Kale, Singh and Raman, 2009, p. 114)

There are some striking differences between MNCs and Chinese EMNCs. The high potential for synergies and the complementary industry profiles of marrying companies correspond to features of the symbiotic approach. However, the maintenance of borders and of the decision-making power of the target firms' management teams are consistent with the preservation approach. According to Liu and Woywode (2013), this approach is a unique combination of the preservation and symbiosis approaches described by Haspeslagh and Jemison (1991). They chose to label it "light-touch integration" (LTI). Whilst this finding has some merit, it does not sufficiently explain and explore if and how this unique integration approach translates into any unexpected case-specific post-acquisition implications for target firms.

3.3 Implications

This part specifies the implications for target firms that can result from an acquisition. An elaboration of implications from EMNCs follows a general stance on post-acquisition implications.

3.3.1 Implications in general

Although research on the implications for stakeholders other than shareholders is limited, some theoretical frameworks exist (Haleblian et al., 2009). Acquisitions pose opportunities to profit from synergies in terms of their markets, products, and technologies (Cho and La, 2014). Per Larsson and Finkelstein (1999), synergies include benefits that arise from, for example, access to new markets and the transfer of current know-how between the buyer and the target. The new owner will try to exploit synergies to a varying extent based on the integration approach that it utilizes (Haspeslagh and Jemison, 1991).

An acquisition can mean that managers of target firms depart, which has been shown to have a negative effect on the post-acquisition performance of the company (Cannella and Hambrick, 1993; Krishnan, Miller and Judge, 1997). According to Lubatkin, Schweiger, and Weber (1999), if managers depart depends on the relative standing of managers, where relative standing is determined by the level of cultural difference between the buyer and the target and the level of autonomy removal from the acquired managers. In turn, high autonomy is closely related to low levels of integration (Haspeslagh and Jemison, 1999). In other words, low levels of integration reduce the risk of acquired managers departing from the firm.

As with top management, acquisitions can also result in both voluntary and involuntary departure of other employees. Voluntary departures are more likely and involuntary departures are less likely in cross-border acquisitions (O'Shaughnessy and Flanagan, 1998). Furthermore, voluntary departures are more likely when employees view the merger announcement negatively (Krug and Hegarty, 2001) and layoffs are more likely when acquisitions combine related firms (O'Shaughnessy and Flanagan, 1998).

Moreover, acculturation can be an implication of an acquisition. Acculturation is defined as *"changes induced in (two cultural) systems because of the diffusion of cultural elements in both directions"* (Berry, 1980, p. 215, cited in Nahavandi and Malekzadeh, 1988, p. 81). Berry (1983, 1984, cited in Nahavandi and Malekzadeh, 1988, p. 82) identified four different modes of acculturation: integration, separation, assimilation, and deculturation. Which mode of acculturation will be triggered depends on four factors: to what extent members of the target firm value the preservation of their own culture, to what extent they perceive the buyer as attractive, the degree of multiculturalism in the buyer, and the relatedness of the marrying companies (Nahavandi and Malekzadeh, 1988).

<table>
<tr><td colspan="2" rowspan="2"></td><th colspan="2">How much do members of the acquired firm value preservation of their own culture?</th></tr>
<tr><th>Very much</th><th>Not at all</th></tr>
<tr><th rowspan="2">Perception of the attractiveness of the acquirer</th><th>Very attractive</th><td>Integration</td><td>Assimilation</td></tr>
<tr><th>Not at all attractive</th><td>Separation</td><td>Deculturation</td></tr>
</table>

Figure 6: Acquired firm's mode of acculturation (Nahavandi and Malekzadeh, 1988, p. 83)

		Culture: Degree of multiculturalism	
		Multicultural	**Unicultural**
Diversification strategy: Degree of relatedness of firms	**Related**	Integration	Assimilation
	Unrelated	Separation	Deculturation

Figure 7: Acquiring firm's mode of acculturation (Nahavandi and Malekzadeh, 1988, p. 84)

3.3.2 Implications for EMNCs

Particularly long-term implications must be considered in EMNC acquisitions. Kale, Singh, and Raman (2009) studied acquisitions made by Indian firms, which are mostly characterized by the partnering approach. The acquisitions led to the buyer's stock price increasing by 1.76%, an extraordinary result given that most acquisitions destroy shareholder value (Kale, Singh and Raman, 2009). However, since EMNCs may overlook financial performance of the target and instead focus on gaining access to strategic resources and technology (Rui and Yip, 2008), it is crucial to look not only into the short-term change in shareholder value but also into the long-term consequences to fully assess the success or failure of these partnership acquisitions (Peng and Beamish, 2014; Song, 2014).

While Liu and Woywode (2013) briefly dwelled on the implications for target firms of Chinese acquisitions, they are not primarily concerned with this topic. The authors showed that light-touch integration (LTI) significantly differs from traditional absorption-style acquisitions, and so may the implications for target firms. The main finding of Liu and Woywode (2013) in this regard is that the management team, the name of the company, brands, and the decision-making power remain intact. All things considered, the authors believe that LTI can benefit target firms by preserving their autonomy and leveraging their strategic resources (Liu and Woywode, 2013).

Nevertheless, it would be helpful to understand if there are other implications occurring. For example, Liu and Woywode (2013) addressed top management but disregarded the remaining workforce. Similarly, they did not investigate or question if there are limits to the decision-making autonomy. One could make the case that only certain decisions are allowed, possibly only those that leave the financial resources of the new owner untouched. In sum, post-acquisition implications for target firms, especially in the case of Sino-German acquisitions, are still a largely unexplored field.

4. FINDINGS

This chapter presents the empirical findings of our investigation. Specifically, relevant consulting reports, dialogues with managers, and discussions with experts are displayed.

4.1 Consulting reports

The main reason for acquisitions is that Chinese companies want access to Germany and/or Europe, PwC (2016) suggested. Another reason is that Chinese investors seek to obtain technology that German firms possess. Similarly, Chinese investors are eager to acquire established brands and seek economies of scale. CNC Communications (2014, p. 7) added that *"an acquisition in Germany is often not just a company's first foreign investment, but also the first step towards external growth."*

PwC (2013, cited in CNC Communications, 2014, p. 6) claimed that *"companies often prospered after being acquired by a Chinese investor."* Employee statements such as *"the Chinese acquired us in 2005, saved us in 2009 and now they are putting us back on top"* back these claims (Rosenfeld and Dagmar, 2014, cited in CNC Communications, 2014, p. 6). Chinese companies are sometimes even perceived as *"white knights"* (CNC Communications, 2014, p. 6). This was especially true during the financial crisis. In almost half of the M&A cases that occurred during that period, German companies actively sought the help of a Chinese company (CNC Communications, 2014). However, financially healthy companies also reported positive developments in their business after investments by a Chinese investor. Often Chinese acquisitions enable target firms to improve revenue (Hans Böckler Stiftung, 2012), increase profitability, and save jobs (Unternehmeredition, 2013). More specifically, the positive implications for target firms primarily include financial support and access to the Chinese market (Unternehmeredition, 2013; Unternehmeredition, 2014). The report by MICSRG (2015) also found that target firms in Germany can use the Chinese investment to strengthen their own export efforts. Particularly smaller firms can profit from the investors' help in grasping the Chinese market and way of doing business. Further, the authors made the case that Chinese OFDI can increase innovation and investments in R&D. According to MICSRG (2015), the traditional perception that Chinese companies lack capabilities to innovate does not hold true anymore.

Reports on the increasing trend of Sino-German acquisitions concluded that *"the views held by the media and the public on the one hand and the practical experiences of the companies affected on the other are poles apart"* (CNC Communications, 2014, p. 6). Chinese investors usually interfere little with day-to-day operations to protect the success factors of the German companies: their culture, processes, and employees. Likewise, the management team usually remains intact (Unternehmeredition, 2013). With regards to employees' reactions, the Hans Böckler Stiftung (2013) revealed that if the target firm was in financial distress prior to the Chinese investment, employees were mostly happy about the investment. Besides, labor unions in Germany can leverage their clout and achieve employee retention guarantees from an investor. In fact, in many cases employees have been hired after an acquisition (Hans Böckler Stiftung, 2013).

Nevertheless, per CNC Communications (2014) there are several complications that result from Sino-German acquisitions, primarily regarding language, culture, time, and hierarchy. Language barriers are described as the biggest barrier to cooperation. Similarly, cultural differences lead to miscommunication and inefficiency. Time concerns the scheduling approaches and perceptions of the importance of punctuality. While Germans follow their schedules minutely, Chinese consider theirs as merely suggestions. In terms of hierarchy, the flat German organizations contrast with the vertically structured Chinese ones (CNC Communications, 2014). Unternehmeredition (2013) noted that most such problem are the result of buyers lacking experienced managers, organizational structures, and product-market knowledge. On a macroeconomic level, bad practices could lower labor and environmental standards and thereby negatively affect the whole German economy.

4.2 Expert interviews

ORGANIZATION	EXPERT	POSITION	DATE
Deloitte	E1	Managing director	13.10.2016
M&A China/Germany	E2	Chief editor	03.11.2016
German Federal Ministry for Economic Affairs and Energy	E3	Head of the Directorate General for External Economic Policy towards Asia and Australia	19.12.2016

Figure 8: Interviewed experts

4.2.1 Consulting perspective: Expert 1 (E1)

E1 is a managing director at Deloitte and a former partner at KPMG. He has been involved in assisting Sino-German acquisitions since 1997.

According to E1, about 95% of Sino-German acquisitions of recent years have been initiated by Chinese firms. Acquisitions are only triggered by German companies when they are in financial distress or when they want access to the Chinese market and *"the shareholder doesn't really care who is buying [the company]."* There are primarily three reasons why Chinese companies buy German firms: slow growth, pressure and/or support from the Chinese government, and lack of international experience. First, many Chinese firms are experiencing dissatisfying growth in their home market, which means *"they have to look outside their home market [for growth]."* Acquisitions in the German *Mittelstand* help them to achieve this in two ways. These acquisitions give them access to more advanced technology that they can sell to their current customers in China. Besides, these acquisitions provide them with access to the European market. Second, the Chinese state is involved in the business activities of many Chinese companies. SOEs are often directly ordered to internationalize, while POEs receive governmental support, primarily in terms of cheap funding. Third, many Chinese companies are industry leaders but have no international experience. This is yet another reason to acquire German companies with their internationally experienced managers. E1 also pointed out that the Chinese appear to have become more professional in their acquisitions, as can be seen from them engaging in more related and strategic acquisitions than before.

E1 emphasized that the new owners neither integrate the target firms nor interfere in day-to-day business in any way. *"Usually it's quite hands-off so to say,"* E1 explained. That means, little changes in the German firms after they are acquired. Notably, most acquired firms are well functioning businesses. E1 therefore believed that it makes sense for the buyers not to change the target firms. *"[The Chinese] just look and learn and then start to adjust what the problems or challenges [might require them to adjust],"* he illustrated. E1 claimed that Chinese humbleness about their own expertise facilitates this approach. He elaborated: *"Honestly (…) [the Chinese] are smart[er] in understanding cultural differences and profiting from them."* Moreover, he mentioned that he, contrary to others, does not believe that some inherent long-termism in the Chinese companies is causing the hands-off approach since even long-term investors could start integrating right away.

Even though Chinese buyers usually do not fully integrate German target firms, there are still noteworthy implications for the acquired firms. For example, in the case of Sany[5]-Putzmeister[6] in 2012, the two firms combined their supply chains on a global level. However, such large-scale implications are uncommon. Negative implications for the target firms are usually limited to language difficulties and coping with the differences in management styles. For instance, the Chinese are less process oriented than the Germans and instead more ad hoc in their problem solving.

E1 reasoned that the Chinese will maintain the same low/no integration approach in the future for the reasons mentioned before. Finally, it was E1's opinion that there is no cause for concern about future German competitiveness. He considered the current discussion in media, depicting recent acquisitions as hostile takeovers, as *"ridiculous [since] nobody forces [the owners] to sell [their] shares [to Chinese investors]*." Although he pointed out that Germany, of course, depends on its technological advantage, which is worth protecting, E1 noted that this is true not just for Chinese buyers but also for buyers from the U.S. However, he highlighted that the Sino-German case might be different since the Chinese government is behind the recent surge in investments – along the lines of: *"If you go abroad, we will support you!"* – and called for caution.

4.2.2 Business journal perspective: Expert 2 (E2)

E2 is the chief editor of a business journal called "M&A China/Germany" and has been covering acquisitions of German firms by Chinese buyers since 2014.

Per E2, acquisitions in the German *Mittelstand* by Chinese companies are usually part of an internationalization strategy focused on acquiring brands, technology, and know-how. Brands are of importance to the buyers because German brands are very popular in China. Lenovo's[7] acquisition of Medion[8] is a good example. *"This is why you sometimes have companies which buy German companies which are not in their own industry (…), because they just want to acquire a German brand."* In turn, Germans mostly accept Chinese bids because they are interested in expanding into the Chinese market. In addition, Chinese partners are helpful in case the German companies are financially constrained regarding expansion opportunities. E2 highlighted that the Chinese are recently

[5] Sany is an equipment manufacturer (especially for engineering machinery). Its headquarters is in Changsha, China, and it acquired Putzmeister in 2012.
[6] Putzmeister is a machine manufacturer, focusing on concrete, mortar, underground, and related industrial technologies, and has its headquarters in Aichtal, Germany.
[7] Lenovo is a global technology company with headquarters in Morrisville, US, Beijing, China, and Singapore, Singapore. It acquired Medion in 2011.
[8] Medion is an electronics company and has its headquarters in Essen, Germany.

performing more related acquisitions than in early years. Shang Gong[9] and Dürkopp Adler[10] is an example where *"the German compan[y] was part of [the Chinese firm's] internationalization strategy."* In this case, both companies were close to bankruptcy prior to the acquisition but selling the German company's products in China enabled both to thrive again – *"with the help of the German brand."* Although E2 believed that the Chinese government's 13th 5-year plan and their *"'Made in China 2025'-plan are crucial,"* he emphasized that also *"[the Chinese companies'] own motivation is very strong."*

The acquiring firms leave the acquired firms intact because they rely on and have great respect for the Germans' technological know-how, according to E2. Hence, the Chinese acquirers do not impose their own way of working on the target firms but rather they "*give them some form of support and access to the Chinese market."* This is especially true in the case of companies associated with Industry 4.0, such as manufacturers of advanced machinery equipment. E2 highlighted that *"the fear of the Chinese stripping off the technologies [of the German companies] is unfounded."* This contrasts with investors from the U.S., for example, who rather want to see a high return on investment within two years and are willing to integrate and change target firms for that purpose.

E2 pointed out that even though target firms are not integrated by the buyers, the acquisition can still result in momentous implications for a German target firm. For example, German managers are often frustrated by the frequent replacement of their Chinese colleagues. E2 reasoned that the Germans are usually in contact with those Chinese employees who have some international experience. These people are rare and hence get many job offers, which enables them to regularly change jobs. In terms of decision-making, E2 mentioned that the Germans are autonomous overall but *"the Chinese tend to control the financial department, they send a CFO or Vice-CEO who is in charge of the financial issues – they keep an eye on that."* Moreover, the management team is sometimes replaced, especially if the target is close to bankruptcy or if the Chinese think the Germans are incapable of good management for some other reason. E2 also noted that cultural differences can cause problems but that it is a matter of experience to navigate around such issues. He believed that sometimes the Germans have too high expectations from a buyer *"because Chinese investors have become renowned for supporting German (…) companies in the Chinese market (…) but this is more a problem on an individual basis."* Furthermore, he could not think of any case in which the brand was removed.

Taking a future perspective, the target firms fit into the buyers' strategies more than people realize. As the Chinese catch up with German management practices and technology by accumulating experiences through their hands-off integration, they are likely to integrate target firms more than they currently do. For example, the buyer of Kuka has promised to keep the company intact until 2023. E2 noted: *"What will happen then, no one knows."* While E2 believed this will not happen in the foreseeable future, he did not blame the long-termism of the Chinese culture for this approach. He added: *"The Chinese are most definitely interested in the long-term development of the company (…) as part of their larger strategy."* E2 could understand that there are some concerns regarding Chinese companies owning Industry 4.0 related companies from Germany. Though, for politicians to be able to

[9] The Shang Gong Group is in the sewing machinery industry and is headquartered in Shanghai, China. It acquired Dürkopp Adler in 2005.
[10] Dürkopp Adler is a manufacturer of industrial sewing equipment. Its headquarters is in Bielefeld, Germany.

interfere, German regulation must change as the government is currently only allowed to get involved in acquisitions that concern national security or public order – both of which require *"hard evidence."*

4.2.3 Governmental perspective: Expert 3 (E3)

E3 is the Head of the Directorate General for External Economic Policy towards Asia and Australia within the Federal Ministry for Economic Affairs and Energy of Germany. He reports to the Minister for Economic Affairs and Energy, Sigmar Gabriel. E3 has been involved in Sino-German acquisition activities *"for many years."*

E3 began the dialogue by restating what ministers have announced before: *"Foreign investors are welcome in Germany (…) and also investments from China [are welcome]."* To his knowledge, the Chinese buyers have proved to be reliable partners for the German target firms. The issue for the German government is not primarily the well-being of German *Mittelstand* companies. In fact, E3 did not believe that German competitiveness is at risk even though he agreed that the government should attempt to protect its industry leading companies. The German government's concern with the Sino-German acquisitions is that they are driven and subsidized by the Chinese government and not the result of a free market. Another issue is that it is much more difficult for German firms to enter China than it is for Chinese firms to enter Germany. This is *"a situation we cannot accept in the long run,"* E3 cited Gabriel saying during his visit to China in November 2016. However, EU law forbids any restrictions on inward capital investments, including from China. The German government can therefore only set up restrictions when public order and/or national security is endangered. Paradoxically, in cases where the German government does intervene for such purposes, the future of the German target firms might instead be threatened. For example, in the case of Aixtron[11] there were no other potential buyers available. This dilemma demands a careful approach from the government to maintain the balance between the interest of the public and that of German *Mittelstand* companies.

In terms of future development, E3 emphasized that the German government will not implement protectionist measures against Chinese investors. Yet, he added that the Chinese government must change their current agenda and restore reciprocity between the two countries with regards to this issue. E3 summarized that the German government wants *"a free market (…) but also a level playing field."*

[11] Aixtron is a producer of metalorganic chemical vapour deposition (MOCVD) based equipment, which is mainly used in the semiconductor industry. The headquarters is in Herzogenrath, Germany.

4.3 Manager interviews

	YEAR	COMPANY	MANAGER	POSITION	DATE
Pre-study	2014	C1	M1.1	CEO	30.09.2016
Main study			M1.2	COO	11.10.2016
			M1.3	Director Finance/Controlling	13.10.2016
			M1.4	Manager Construction Site Equipment / CAD Administrator	09.11.2016
	2013	C2	M2.1	CEO	05.10.2016
	2014	C3	M3.1	CFO	11.10.2016
	2013	C4	M4.1	CEO	13.10.2016
			M4.2	Head of Finance	18.10.2016
			M4.3	Head of Sales	20.10.2016
Post-study	2010	C5	M5.1	CFO	09.12.2016
			M5.2	CEO	12.12.2016
			M5.3	Director HR	14.12.2016
			M5.4	Subsidiary CEO	15.12.2016

Figure 9: Interviewed managers

4.3.1 Company 1 (C1)

C1 sells manufacturing and logistics solutions and produces construction materials and bulk materials. The firm was bought by a Chinese company in the same industry in 2014, hence it was a related acquisition. The new owner used to be a customer of C1. The Chinese government has a 25% stake in the buyer company (M1.1). Per M1.1, the Chinese motivation behind the acquisition was to get access to German technology to increase sales in China and expand globally. C1 agreed with the acquisition based on the prospect of support in case of financial distress and financing of business projects with large capital investments.

M1.1 explained that almost everything in C1 still works the way it did before the acquisition and he experienced no disadvantages resulting from the acquisition, stating *"we are completely independent."* M1.4 described the problems of the owner as the main cause why the investor has not interfered with C1. Due to the planned economy of China, the owner has produced parts *"that no one wants today (…), the market is saturated already"* and the company is consequently suffering financially (M1.4). M1.1 added that C1's former subsidiary in China is not a consolidated business of C1 anymore but completely integrated into the Chinese mother firm. Additionally, the Germans had a leading role in some parts of strategic decisions following the acquisition, for instance regarding the development of new products for the Chinese market. M1.1 noted that *"contrary to what you would expect, the impulses came from West to East, not the other way around."* M1.1 could also restrict the overall knowledge transfer to China. *"Basically, I told them what they would need (…) and what they could have,"* highlighted M1.1. In fact, C1 acted as an advisor to the Chinese about which German technology could best be utilized in the Chinese market: Although the Chinese investor wanted to access all knowledge available, C1 could curb this desire since *"it just doesn't make any sense (…) because the market is just not ready for many products"* (M1.2).

Initially, like in most acquisitions, many employees of C1 were skeptical about the takeover (M1.2). As M1.3 put it: *"Supposedly the Chinese are coming like grasshoppers, taking everything and leaving a barren field behind."* M1.3 could calm people down and nowadays everything is *"back to business as usual"* (M1.2). Regarding communication with the Chinese, M1.2 found it difficult to explain his own decisions to the Chinese as well as to understand the decisions of the Chinese. This has been partly due to the language barrier, partly since the Chinese contact persons are constantly changing, and partly since the owner has a tendency of not acting in accordance with a previously agreed upon strategy. Indeed, plans are not considered as mandatory commitments by the Chinese investor. M1.2 exemplified: *"We had been working on a joint strategy and expectations had been raised (…) but then the Chinese partner did something completely different."* Further, M1.3 raised the point that communication is *"pretty much not possible via phone"* due to the lack of English proficiency of the Chinese counterpart. In the little communication that M1.4 had with the Chinese investor, he has been careful not to share information about the technology behind C1's manufacturing process to avoid technological drainage by the new owner. He added that he says *"whatever needs to be said but not more."* M1.4 also mentioned that his contact person in the Chinese firm is constantly replaced, which required him to do the same training several times. *"Doing the training several times is demotivating,"* he noted. Besides, M1.4 complained that the Chinese never do more than their role description tells them to do and that *"decision-making is a very long process"* since employees always need to double check with their supervisors.

The reporting itself changed enormously but it took a long time before a proper reporting system had been built. In the beginning *"the reporting system was a huge excel sheet (…) that was partially in Chinese (…) and there was no introduction or support [to it],"* illustrated M1.3. This complicated reporting and could have been handled better as experienced by M1.3 in a previous acquisition. Only after some time the whole excel document was translated into English and the document was improved with input from the German target and its SAP system. Still, the reporting in excel is not a very efficient solution in M1.3's opinion.

Furthermore, there has been no increase in market access for the Germans as the Chinese have been very passive with regards to C1's business (M1.2). Yet, M1.1 stated that *"if we would ever find ourselves in financial trouble (…) [or] if there was a large initial investment required for a project,"* C1 could rely on the new owner for capital. In case of a need for financing for other purposes, M1.3 thought that he must rely on taking on debt as C1 has only received an initial capital injection so far. However, C1 can freely choose the bank. Moreover, some customers asked for information about the origins of certain equipment and to what extent C1 shares information such as order specifications with the Chinese owner (M1.2). Yet, this had no negative impact on C1's reputation with customers (M1.1).

In terms of future implications, M1.2 hoped for a stabilizing Chinese market so he can get more support in creating a sales network. *"If the market picks up again in China (…) things might change. It* *would be great to have some support for setting up a sales network"* as it is challenging for a *Mittelstand* firm to do so on a global scale on its own (M1.2). M1.3 did not believe that there will be any future changes given that the Chinese have very limited experience in this regard. He elaborated: *"They simply have no understanding of how to integrate a company."*

4.3.2 Company 2 (C2)

C2 produces construction and repair tools. The firm was bought by a Chinese company in 2013. M2.1 said that the Chinese buyer used to be a supplier. The Chinese firms is focused on power tools, just like C2. Hence, the acquisition was related.

According to M2.1, the management team is still autonomous in its decision-making. The relationship with the owner is basically the same as it was prior to the acquisition, a normal supplier relationship, and only 10% of C2's employees have direct contact with the Chinese investor. M2.1 noted that the Chinese approach is very different from that of American investors in terms of how involved the owner is in day-to-day decision-making. For example, initially M2.1 communicated a lot with the investor. Yet, nowadays the Chinese investor only makes decisions for C2 regarding the approval of the annual budget and strategy. M2.1 commented that *"even if [the investor] wanted to implement major changes, they would not be able to (…) since often the [investor's] poor English language skills are a problem already."*

Furthermore, the owner is well positioned to support C2's growth aspirations in a certain product segment as the investor provides financial backing for the high development costs, which C2 could not shoulder on its own. Especially, the Chinese team of development engineers is as big as the whole German company prior to the acquisition. Additionally, due to the larger organization and product portfolio and the resulting need for better coordination, *"the product development process is more structured now."* Moreover, C2's employees used to be worried about the acquisition since a similar restructuring case led to 2000 layoffs. When employees realized that it would not imply any layoffs due to an employment guarantee, they felt safe again. M2.1 also mentioned that he has experienced no problems with customers questioning the quality of C2's products, barring from one US customer that decided to stop its relationship. In terms of reporting, it is generally more efficient and faster than it used to be.

The main complications following the acquisition pertained to communication difficulties, cultural differences, and a lack of knowledge of the investor. Communication difficulties are mainly language related. M2.1 exemplified the language issue: *"Both sides use Google Translate (…), which can be a bottleneck in communication."* Because of the different communication style, C2 had once been working on a product development project for two months before it realized it must start over from the beginning. In terms of cultural differences, the Chinese have difficulties in delegating responsibility and expressing constructive criticism - *"they do not know the word 'no.'"* Moreover, the Germans tend to focus on results while the Chinese are more interested in efforts. For example, when C2 meets its budget goals the owner tends to see that as a sign of passivity, that the German employees have not had high enough ambitions, and hence did not work hard enough. Therefore, objectives are now higher for the German organization. Regardless, cultural difficulties are rather a by-product in M2.1's view. The real challenge is in coping with the different knowledge standards. *"They would never have an engineering degree in Europe,"* M2.1 commented on the engineering quality in

China. Despite C2's access to the investor's sales network in China, C2 was not able to increase sales in the Chinese market substantially. M2.1 identified slow growth in C2's market for these products in China as the cause for the unfulfilled sales increase. M2.1 did not believe there will be any other implications for C2 in the future that result from the acquisition.

4.3.3 Company 3 (C3)

C3 produces tower cranes. The firm was bought by a Chinese company in 2014. The goal of the acquisition for the Germans was to avoid insolvency, while the buyer wanted to expand into new business areas.

M3.1 said that there have been no implications of the acquisition whatsoever. *"It's good the way it is,"* commented M3.1 on the lack of integration. Neither the processes changed after the acquisition nor the decision-making competencies of the German management team. In fact, the management team was actively kept in the company by the Chinese investor through the signing and renewing of the management team's employment contracts. Also, all remaining employees could keep their jobs. M3.1 explained that there was no skepticism from the employees since the fear about otherwise losing their job outweighed the fear about the Chinese investor. Regular meetings once every quarter with the owner are used by M3.1 to provide the investor with updated information about the company's situation. The manager highlighted that this is a mere informational discussion and does not include strategic decision-making since *"strategic decisions are still with us.*" That means, no apparent knowledge transfer has taken place.

Moreover, *"none of the customers asked any questions [about the new ownership structure]."* The cultural differences that exist have not had any influence on daily operations as everyone involved could adapt. *"It's a different culture, of course, (…) but you can solve those problems, you just have to try to understand [the culture],"* reasoned M3.1. As the two companies have been doing business in unrelated markets, C3 could not profit from market access or additional resources to serve the Chinese market. With the main goal of the acquisition being to remain in business at all, M3.1 did not raise any concerns about potentially missing opportunities in the Chinese market. Even more so, C3 could increase revenues and headcount since the acquisition. M3.1 is uncertain whether the situation will change in the future or not.

4.3.4 Company 4 (C4)

C4 is a manufacturer of solar panels and charging stations for electric vehicles. It was acquired by a Chinese investor in 2013. The CEOs of the firms had a business relationship prior to the acquisition. C4 was a new company, in financial distress, and needed capital to develop. The buyer, which had a business background in electronics, wanted to branch into solar energy and get access to the German market. In other words, it was an unrelated acquisition.

M4.3 mentioned that very little has changed since the acquisition. Similarly, M4.1 has total independence in terms of strategic and operational decision-making. M4.2 emphasized the company's continued autonomy and decision-making freedom in terms of financial decisions: *"You can't see from the outside that we are owned by a Chinese investor, which is a stark contrast to Japanese investors, for example."* In terms of reporting, M4.1 collects the information he thinks are *"interesting and* *relevant"* monthly and sends it to the owner. There are no requirements from the Chinese with regards to reporting. In terms of employees, M4.1 had noticed that some were skeptical prior to the acquisition but this skepticism faded as people realized that all employees would keep their jobs. Moreover, the buyer has only visited C4 twice in the past two years. M4.1 said that more frequent visits could help provide a greater sense of security among employees in Germany. Overall, everyone in the company is happy that they have been saved from bankruptcy (M4.2).

One problematic implication of the acquisition by the Chinese has been that they have a different mentality from the Germans. The Chinese do not make any long-term plans and *"only think about the next day,"* hence they solve problems continuously as they arise (M4.2). For example, C4 once tried to get across Chinese customs with a transport for which they needed to present a technical data sheet to be allowed to pass. The Chinese owners were aware of this fact but had not informed the Germans, which eventually caused problems and delays. As becomes apparent from this example, *"the Chinese don't think about different scenarios"* (M4.2). Moreover, the Chinese owner constantly replaces M4.2's contact person. M4.1 also has experienced some issues in trying to communicate with the owners: *"Everyone's doing their own thing. There is no effective exchange of information from Chinese colleagues. I explain the same things as people keep asking the same questions, repeatedly."* However, M4.3 has experienced no communication difficulties. *"The buyers communicate with us on a level playing field (...) and are glad to have us Germans on board since we speak up regarding topics that need to be solved and do not beat around the bush,"* elaborated M4.3.

Some expectations from C4 have not been fulfilled after the acquisition. M4.1 had hoped for support regarding sales activities in China. Yet, the Chinese investor has not been able to provide this. M4.1 commented that he *"never understood why the Chinese don't [pursue this …], after all the potential is huge."* In a similar vein, M4.3 believed that it would be beneficial for C4 if the owner integrated the company more with the Chinese mother company. M4.3 thought that this could yield benefits in terms of product and solution offerings. At present, the Chinese company has three different business areas in Germany that could complement one another on an international level, that means between different subsidiaries. However, this would require central coordination and initiative from the Chinese mother firm. *"Such an interplay has to be driven from the top,"* urged M4.3. M4.1 was primarily concerned about the fact that the owner is expanding aggressively in the U.S. and China. This expansion has made it difficult for the investor to provide C4 with sufficient financial support. Consequently, M4.1 felt as if his company is restricted to a mere survival mode - *"the operative business in being paid for but not more."* On a similar note, M4.2 explained that the money transfer process can be costly under certain circumstances; specifically, transactions of above $100,000 need to be cleared by Chinese government officials. To transfer such an amount, information about bills and products needs to be provided. This usually takes a long time, which has forced M4.2 to *"plan budgets accordingly."* Besides, M4.3 stated that customers started to ask questions about C4's products but are content and do not worry about the Chinese owner once they have received a proper explanation about the situation, for example that the relationship is of a financial nature. M4.1 usually finds that this problem can be resolved easily when he invites potential clients to visit the production plant.

To concede, M4.1 had no reason to believe that the new owner will attempt to integrate C4 more in the foreseeable future: *"The Chinese company is doing way too many things and they can't really keep up* *with what they are doing and managing their companies properly."* Likewise, M4.2 did not expect any future changes since the business plan does not require changes. However, M4.2 hoped that C4 could achieve its strategic goal and become financially independent roughly within the next two years. This would reduce the interaction with the buyer to merely reporting. In his opinion, C4 is a well-functioning company so there is no reason for the Chinese to interfere in any way. M4.3 pointed out that he considers the current ownership structure a temporary way of keeping the company afloat.

4.3.5 Company 5 (C5)

C5 manufactures high precision products such as gear wheels. It was acquired in 2010. The Germans and the Chinese met at a fair. The buyer's motivation behind the acquisition was to branch into a new business area, an investment that the state would strongly support due to the importance of CNC technology based products to China's economic development. In other words, it was an unrelated acquisition. C5 was seeking access to the Chinese market and to capital.

Most day-to-day operational processes have not changed (M5.2) and decision-making has mostly remained with the Germans (M5.4). However, M5.1 said that the acquiring firm participated in strategic decisions, especially during the first two years. Relatedly, the new owner set higher goals for C5 than before (M5.4). Yet, M5.1 described the implications of the acquisition as significant. The new investor has modernized the company in many ways, through a better reporting systems and a more professional approach towards human resources (HR) management. According to M5.1, before the acquisition *"processes were on the standard of the 90s."* The more formal processes involve mostly production planning and faster reporting systems (M5.2).

There was initially a sense of uncertainty among both employees and managers. Employees were primarily concerned with layoffs and managers expected difficulties in working with the Chinese owner. Yet, apart from the departure of the previous CFO, which was demanded by the Chinese investor to install its own candidate, there have been no layoffs (M5.2). Similarly, it turned out they were easy to cooperate with as *"[they] behave very professionally"* (M5.3). Additionally, there has been a greater focus on HR management. M5.2 reasoned that "*the Chinese must have a stronger focus on HR management [than the Germans] because in Germany well educated people are a requirement*" for hiring, in China employees often must be developed into good employees first. The buyer recruited M5.3 as the new HR manager, extended the responsibilities of the role, and wanted M5.3 to be part of the top management team, which was not completely accepted by C5. M5.3 clarified: *"I attend board meetings but am not on the [top management] level."* Before the acquisition, the HR manager had mainly operational responsibilities such as paying salaries. He/she did not have the strategic responsibility that M5.3 now has. For instance, M5.3 implemented a new achievement-based compensation structure following requests from the new investor (M5.3).

Besides, language differences mean that communication is slow and that content is lost in translation. For example, they always need a translator present in meetings (M5.1). Similarly, cultural differences lead to misunderstandings. M5.1 once casually said *"this is not fun"* when discussing a business challenge. The owners were chocked as they interpreted his comment as *"I want to quit."* However, M5.4 has not experienced cultural difficulties. Instead he is very satisfied with the mindset of the Chinese. As he put it: *"I rather think that [the Chinese sales people] perform better* *than us today, (…) they are young, they are greedy, they want to earn money, they want to have power"* and *"[in China] you are not done with 40h a week when things are not going per plan, there you work day and night, while [in Germany] people go home after ten hours because of employee protection laws and work council and God knows what."*

Regarding reporting, the content has become more rigorous in detail (M5.4). On group level, C5 collects monthly financial data on all product types and produces a report for the owner. Also, C5 must now follow international accounting standards (M5.4). M5.3 also emphasized that the Chinese have access to SAP and thereby *"to all kinds of knowledge [at C5]."* Likewise, there are ten Germans working at the new plant in China, educating the Chinese on how to build high-quality products. By the same token, new employees at the plant are sent to Germany for one to two weeks of training (M5.4).

Furthermore, C5 has increased its sales in both China and Germany (M5.4). The company still sells products produced in Germany to Chinese customers but it also added new products to its portfolio. With the assistance of the new owner, C5 got approval from authorities to open a new production plant in China, which led to an overall cost reduction and cheap, high-quality products with less features. M5.4 explained that *"the technological part is ours in this game, we have to contribute this (…) and this is pretty much why [the Chinese] did [acquire us]."* These products are sold in both Germany and China. Customers are often convinced of the quality by visiting the state-of-the-art facilities at the new plant, which is even superior to C5's plants in Germany. Yet, prices for supplies such as materials have remained the same because the increase in orders has been marginal and so have the discounts (M5.4). The buyer also provided C5 with financial support and even invested some private assets (M5.1). Hence, C5 no longer relies on banks, which makes funding easier (M5.2).

Meanwhile, the company lost a minor revenue stream since C5 could not sell aerospace technology in the U.S. anymore due to the local authorities' ban on importing parts from Chinese or Chinese-owned firms (M5.1). Also, some other customers and creditors were asking about the new ownership situation – *"there was quite some explanation work necessary"* – but could be reassured (M5.1). Besides, there have been some difficulties in terms of getting used to the involvement of the Chinese state. Even prior to the acquisition, C5 would be visited by the head of the local politburo section (M5.2). These days, Chinese politicians influence some decisions of the owner, possibly through state-owned banks. It is not uncommon *"to have dinner with political representatives in China. (…) Sometimes meetings are scheduled overnight,"* which has no major impact but messes up the daily schedule (M5.2).

M5.1 pointed out that the lack of integration does not exist since the investor is Chinese. Instead, he believed the reason is simply that the new owner is a good investor. M5.1 explained: *"There are only good or bad investors."* He further stated that it is beneficial that the owner is a privately-owned enterprise and experienced with business in the West. With regards to the future relationship with the new owner, M5.2 did not expect the buyer to change its behavior. Partly, he thought the reason is that the investor is busy with businesses *"that are probably more important to him."* For example, the new owner recently bought a company in the textile industry, which is the actual business area of the investor (M5.2).

5. ANALYSIS

This chapter analyzes the findings and provides the answer to the research question. We propose that there are seven implications for target firms of Chinese acquisitions in the German *Mittelstand*, which build three implication themes: workforce implications (top management, employees), operations implications (efficiency, reporting), and resource implications (market access, access to capital, reputation).

5.1 Workforce implications

There are two implication categories for a target firm's workforce: top management and employees.

5.1.1 Top management

The acquired managers can take an advisory role for their buyer. M1.2 described how the new owner initially wanted to receive information about and gain an understanding of all of C1's products, yet C1 could decide which ones to launch in the Chinese market. Based on his 10-year long experience with the Chinese market, the Chinese owner later asked M1.2 to advise them on which technologies M1.2 thought the Chinese market was ready for. Graebner (2004) discussed how effective acquired leaders can generate serendipitous synergies, for example by taking on cross-organizational responsibilities that encompass and benefit both buyer and target firm. To our knowledge, this phenomenon has not been observed for the Sino-German acquisitions of recent years. Instead, it is often the buyer that is discussed as taking on the advisory role (e.g. Liu and Woywode, 2013). That kind of relationship exists only in C5, where the buyer advised the target firm on reporting processes, HR management, and governance issues (M5.3).

Decision-making autonomy can be retained in post-acquisition day-to-day management issues. M1.2 described that for C1, the only topic that requires approval from the buyer is the annual budget. The same holds true for C3. M3.1 mentioned that the target firm still makes its own strategic decisions. Similarly, M2.1 explained that he only discusses the budget and the strategy for C2 with the acquirer once a year. In C5, the buyer did initially participate in strategic matters but when the buyer realized that everything was going as planned, they backed down and let C5 work more independently. Now, C5's investor only participates in major investment decisions. The autonomy preservation of the acquired managers is supported by extant literature and can be explained through the motive of the Chinese to preserve and learn the management style and technological know-how of the Germans (Liu and Woywode, 2013; E1). An observation worth noting is that in some cases the Chinese did attempt to participate in decision-making in various ways but had their proposals rejected by the Germans (M1.2; M5.3). This detail is not discussed in literature and likely another expression of the buyers' inclination for learning from the target firms (Luo and Tung, 2007; Madhok and Keyhani, 2012).

Following an acquisition by a Chinese investor, top management layoffs are very unlikely to occur in the target firm. Except for C5 where the CFO was removed and the HR function was reorganized, there have been no acquisition related layoffs. This can possibly be explained by the fact that C3 and C4 were unrelated acquisitions (O'Shaughnessy and Flanagan, 1998). Further, this observation is in line with the findings of Liu and Woywode (2013) but is at odds with the data of Milelli, Hay, and Shi (2010), who studied Chinese and Indian acquisitions in Europe in general and indicated that layoffs may be more prominent in Sino-German acquisitions than in Chinese acquisitions in other European countries with relatively less efficient firms. All examined companies in this thesis' study faced financial constraints prior to the acquisition. Hence, our finding also contradicts studies that showed when targets perform poorly before an acquisition, inefficient application of the human assets of a firm – if it existed – is often corrected through layoffs (Lichtenberg et al., 1987; Chatterjee, 1992). This is likely a result of the Chinese' focus on learning as well (Luo and Tung 2007; Madhok and Keyhani, 2012).

There have also been no voluntary departures of top management executives. Krug and Hegarty (2001) showed that voluntary departures are more likely when managers expect the acquisition to have negative long-term professional consequences; this in turn is more likely when the target is bought by a firm from a country other than its original country. Since the managers of target firms often see the acquisitions they have been part of as a positive development, the pessimism that has arisen from the fact that the buyer is foreign has been counterbalanced to the extent that no voluntary departures have occurred in our study. Also, Cannella and Hambrick (1993) found that top management turnover in target firms is explained by managers' relative standing, which describes the extent to which acquiring managers behave in a dominant manner towards acquired managers. The greater this condition, the greater the rate of departure of acquired executives (Cannella and Hambrick, 1993). Lubatkin, Schweiger, and Weber (1999) illustrated that relative standing is determined by both the level of cultural difference between the buyer and the target and the level of autonomy removal from the acquired managers that occurs after the acquisition. Both these factors can lead to managers departing voluntarily or behaving in ways that ultimately result in them being laid off. In our case, the acquired managers maintaining autonomy has ensured that no voluntary departures have occurred – despite the cultural differences between the buyers and the targets.

We found one example of a change in decision-making. This has been observed when the Chinese operations of C1 have been absorbed by the Chinese, while the German part of the business has remained relatively intact. Weber, Tarba, and Reichel (2011) provided a possible explanation, writing that *"the preservation approach implemented by acquirers from countries with high levels of power distance is characterized by a lower level of autonomy for the acquired management and a higher level of integration (partial preservation) than the full preservation approach implemented by acquirers coming from countries with lower levels of power distance"* (p. 18). We propose:

> **Proposition 1**: Following the acquisition by a Chinese company, a German *Mittelstand* target firm's top management is likely to retain control over operational and strategic decision-making and to take an active role in knowledge transfers to China.

5.1.2 Employees

There have been signs of concern and fear among employees of the *Mittelstand* companies post acquisition, which have not translated into concrete problems for the buying or the bought company. M1.3 described how employees of C1 were concerned before the acquisition, specifically since the buyer was from China. M2.1 attributed the fear among the staff to the fact that a similar company had undergone a restructuring in which 2000 people had to leave their jobs. The employees were worried that the same thing could happen to them. In fact, past acquisition deals by Chinese companies in the U.S. have even raised national security concerns due to the buyers' origin (Antkiewicz and Whalley, 2006). It is possible that such instances negatively affect how Chinese buyers are perceived when acquiring companies in Germany. In most cases, however, concern and/or fear among employees have not been a problem. For example, M2.1 reasoned that the *"no-layoff guarantee"* from the buyer helped to overcome prejudices. Contrary to that, M3.1 instead mentioned that the alternative to the acquisition was bankruptcy; naturally, people were relieved about the news of the acquisition despite the buyer's Chinese roots. The Hans Böckler Stiftung (2013) supported the idea that financial distress often leads to employees perceiving the acquisition more positively. Literature does not mention employment guarantees or financial distress as affecting the implications for employees, instead it focuses on how to communicate to retain employees and maintain their productivity. In a similar vein, M1.3 illustrated how he could communicate with his employees to keep them calm. This is supported, for example, by Sinetar (1981, p. 863) who wrote that *"a solid "people plan" - which considers what and how to communicate before and during a merger (...) helps retain those key, talented individuals who are needed."* Moreover, communication that first steadies, then organizes, and finally directs employees can help achieve employee satisfaction in the face of acquisitions (Sinetar, 1981).

Like among top management, there have been no layoffs or voluntary departures among employees of the target companies. This is particularly reasonable for the unrelated acquisitions (C3, C4, and C5), considering there are no synergies to be found by combining production procedures, for instance. Supporting this finding, O'Shaughnessy and Flanagan (1998) suggested that layoffs were more likely when acquisitions combined related firms. Interestingly however, there have not been any layoffs in the related acquisitions (C1 and C2) either, although one could expect that synergies could be realized. This could be explained by the level of expertise of German employees. Several interviewed managers have hinted at the buyers' respect for their employees' know-how. Accordingly, O'Shaughnessy and Flanagan (1998) described that high labor efficiency in the target usually indicates a lower probability of layoffs following an acquisition. Consequently, we propose:

> **Proposition 2**: Following the acquisition by a Chinese company, a German *Mittelstand* target firm's new ownership structure is not likely to result in layoffs.

5.2 Operations implications

Operations implications of a target firm involve two factors: efficiency and reporting.

5.2.1 Efficiency

Cultural difficulties after a Chinese acquisition can negatively impact the *Mittelstand* company's efficiency. Cultural differences from both national culture and organizational culture affect post-acquisition integration (Weber, 1996; Weber, Shenkar and Raveh, 1996; Morosini, Shane and Singh, 1998) but this literature stream does not explain which effect cultural differences may have on the target firm in case of the hands-off integration that we can observe in Sino-German acquisitions.

In other words, such problems have been discussed in relation to high integration acquisitions (e.g. Very and Schweiger, 2001; Gentile-Lüdecke, 2013). Yet, all companies in this study are shown to have experienced some cultural difficulties, the severity of which has differed between companies. The explanation for the occurrence of these problems despite light-touch integration is that target firms must carry out their reporting responsibilities as well as have discussions about budgets and strategies. Hence, the cultural differences influence operations even as interactions with the new owners are kept to a minimum.

The fundamental differences between the Chinese and German countries and companies, such as in power distance (Hofstede, 1984; Taras, Kirkman and Steel, 2010), affect target firms in several ways. First, the Germans are used to relatively flat organizations and therefore bothered by the fact that the Chinese do not have any autonomy, must check everything with their supervisors, and never do more than their role description asks them to do (M1.4). Similarly, the Germans are also upset by the fact that the Chinese do not provide clear criticism if they think something is wrong (M2.2). However, some managers described the cultural issues as manageable (M2.1; M3.1) and highlighted that the Germans can speak up in the presence of Chinese employees (M4.3). E2 also pointed out that international experience from all involved parties helps avoiding difficulties. Moreover, M2.1 highlighted how different the Germans and the Chinese view goal fulfillment. While the Germans consider sticking to a budget restriction as an achievement, the Chinese tend to see it as a sign that someone was not ambitious enough. Consequently, several business objectives of the *Mittelstand* firms are higher after the acquisition since they are co-determined by the Chinese investor (M2.1).

In addition to cultural issues, the language barrier can prove problematic. For instance, M2.1 explained how he is using Google Translate when communicating with engineers. At one point, a miscommunication led to two months of work before they realized they had to start again from the beginning. Similarly, M1.2 and M1.3 outlined how they must repeat conversations multiple times to make sure the counterpart fully understands them. Liu and Woywode (2013) also found the language barrier to be problematic. However, they only observed this issue in SOE-led acquisitions, while C1 and C2 were both acquired by POEs. Very and Schweiger (2001) illustrated that POE-led acquisitions are generally less problematic for target firms. The observed language difficulties in this study question this finding.

Two issues further deteriorate efficiency levels at the German Mittelstand target firms, none of which has been discussed yet in literature to our knowledge: labor market conditions in China and the competence of the buyers' managers. First, managers from C1 and C4 are frustrated by constantly rotating co-workers in China, which led them to have to explain decisions repeatedly (M1.4; M4.2). E2 clarified that the Germans usually interact with Chinese managers who have international experience. These managers, in turn, are highly sought after in China and therefore stay rarely in the same position or company for long. Second, several managers complained about the competence of managers of the new owners. M4.2 exemplified that Chinese managers have an ad hoc approach to problem solving – without preparation. According to M2.1, the real challenge lies in coping with the knowledge standard in the engineering department. *"They would never have an engineering degree in Europe,"* M2.1 pointed out. All in all, we propose:

Proposition 3: Following the acquisition by a Chinese company, a German *Mittelstand* target firm's operational efficiency is likely to suffer from culture-, language-, and knowledge-based misunderstandings between the acquirer's and the target's workforce.

5.2.2 Reporting

Reporting is an area in which changes seems to be a given, yet in profoundly different ways. Extant literature on EMNCs suggested that *"creating common procedures and reporting relationships is complex and consumes significant chunks of top management's time,"* which leads to EMNCs preserving the independence of their targets in this regard (Kale, Singh and Raman, 2009, p. 111). To some degree, this is in line with the findings of this study. M1.1 detailed the new owner as being inquisitive but M1.1 still has the final say in what is relevant to report. For C4, the requirements are even less thorough as the Chinese investor does not even make any reporting requests (M4.1). It is worth noting that such situations oppose literature, which however describes high integration acquisitions (Schweizer, 2005; Seo and Hill, 2005). In terms of format, M1.3 described the early reporting system as chaotic. He was provided with an Excel file, which was partially in Chinese, via email without any form of instructions. In the other case companies this seemed to be handled better. Content-wise, reporting is mostly focused on financial and engineering related data (M1.1) or the budget (M4.1). In the case of C5, the company had to conform to international reporting standards. To our knowledge, the literature on reporting related implications for target firms does not go into such details. Regarding the frequency of reporting, C3 only has a meeting every quarter but no reports (M3.1), C4 sends monthly reports (M4.1; M4.2), and C2 and C5 are experiencing more frequent and rapid reporting (C2.1; C2.5). M5.3 mentioned that the new owner currently has full access to all information about C5, which is in line with the findings of Liu and Woywode (2013). Hence, we propose:

Proposition 4: Following the acquisition by a Chinese company, a German *Mittelstand* target firm's reporting process is very likely to undergo changes, which are often co-constructed by the target firm and vary regarding frequency and content.

5.3 Resource implications

Resource implications for a target firm involve three areas: market access, access to capital, and reputation.

5.3.1 Market access

While there are differences with regards to the extent of the new market access, some *Mittelstand* firms can enhance their access to the Chinese market post acquisition. Several reports have highlighted how the new owner can be an enabler to increasing exports to China (Unternehmeredition, 2013; Unternehmeredition, 2014; MICSRG, 2015). The case of Putzmeister exemplified this since it experienced an increase in orders, which is based on customers of the buyer (Hans Böckler Stiftung, 2012). Häkkinen and Hilmola (2005, p. 291) commented on such revenue-based synergies that they *"acknowledge[s] the possibility for the acquirer and the target to achieve a higher level of sales growth together than either company on its own by combining their resources."* Beyond that, there have been cases where access to the Chinese market has been crucial for the target firm being able to avoid bankruptcy, for example in the case of Dürkopp Adler (E2). Also, the acquirer can enable the target firm to set up production facilities in China, as happened for C5 (M5.1). In general, this is an implication for German target firms that has been reported before (Gentile-Lüdecke, 2013).

Furthermore, *Mittelstand* firms can leverage their new ownership and increase sales by developing new products in cooperation with the buyer. To our knowledge, this phenomenon has not yet been observed in the extant literature on Sino-German acquisitions. M2.1 described how C2 could branch into battery devices. The required development costs for this product segment were too high for C2 to bear alone; with the acquisition involving access to 300 development engineers in China, equal to the total number of employees at C2, this segment could be explored. Moreover, the access to the Chinese market, including both sales and production, can lead to the target firm building Chinese market specific products that it can sell elsewhere, too. The production facilities that M5.1 mentioned were used to devise high-quality, low-cost products with less features than in the original product for the Chinese market. Surprisingly, C5 identified demand for these products in Germany for customers who preferred a cheaper product compared to C5's standard offer (M5.4). These new product development and learning opportunities are particularly interesting seeing that three out of five of the acquisitions in this study are unrelated. Nahavandi and Malekzadeh (1988) showed that the motivation behind unrelated acquisitions in general is to enter new product-, market-, or technology-domains. As such, these acquisitions facilitate new learning (Nahavandi and Malekzadeh, 1988). In the case of recent Sino-German acquisitions, learning can evidently happen for both parties involved.

Interestingly, *Mittelstand* firms seem not to be able to increase their market share through new geographic markets. The recent slowdown of the Chinese market has caused the buyers of C1 and C2 to focus on their own sales in China rather than assisting C1 and C2 in establishing a strong presence in China (M1.2; M1.3; M2.1). Similarly, M4.1 experienced that the buyer of C4 is engaged in too many acquisitions at the same time and therefore has little resources to engage in the development of C4 despite the high potential for C4's products in the Chinese market. On the other hand, M1.2 ascribed some of the lack of assistance in C1's expansion opportunities to the fact that the motivation behind the acquisition was more about knowledge sharing. In other cases, market access is not desired by the target firm. For instance, the goal of the acquisition in C3's case was simply to remain in business. With that objective in mind, M3.1 did not raise any concerns about potentially missing opportunities in the Chinese market. In the case of C1 and C5 there was even a partial loss of market share for the target firm. C1 used to have a subsidiary in China which was completely integrated by the buyer into its operations in China, making C1 focus on all markets other than the Chinese. In the case of C5, the company lost a minor revenue stream in terms of not being able to sell aerospace technology in the U.S. due to the local authorities' ban on importing parts from Chinese or Chinese-owned firms. That market share remains constant or wanes is not examined yet in literature as an implication for target firms of recent Sino-German acquisitions. Therefore, we propose:

> **Proposition 5**: Following the acquisition by a Chinese company, a German *Mittelstand* target firm's access to the Chinese market is not likely to improve, while additional product related revenue opportunities are likely to emerge.

5.3.2 Access to capital

Mittelstand firms wish to obtain access to the buyers' capital after the acquisition. This has been shown by reports and is especially relevant if the target was on the brink of insolvency (Unternehmeredition, 2013; Unternehmeredition, 2014). Gentile-Lüdecke (2013) described this as one of the main reasons why German companies agree to be acquired by Chinese buyers. However, only the managers of C5 seem content with the firm's access to capital from the owner. They no longer need to leverage the firm and, for example, have received support to build a new production plant in China (M5.2; M5.4). In the case of C3, the company only received initial capital injections (M3.1). M1.1 noted that the company would get support if they were in financial distress in the future or if they had to make large investments. Contrary to this, M1.3 believed that C1 would have to take loans if they needed capital in the future. Consequently, it does not seem as if C1 has received any guarantee to have access to capital. On the other hand, the situation for C4 is even less favorable. M4.1 described the company as being restricted to a mere survival mode: *"The operative part is being paid for but not more."* M4.1 complained that he needs money to develop marketing and sales for the firm to be able to grow. He assumed that the shortage of financial support can be blamed on the buyer being busy expanding in China and in the U.S. Moreover, M4.2 explained that even if C4 could get financial support, capital transfers are still costly. Chinese regulation demands that any transfer above $100,000 must be cleared by the government, which results in additional costs and delays for the involved transaction parties (M4.2). We could not obtain literature that examined these kinds of capital constraints on German target firms. However, Chari, Chen, and Dominguez (2012) studied Chinese acquisitions in the U.S. and found an *"employment and capital decrease, [which might be] suggesting that divisions may be sold off or closed down"* (p. 36). Building on this reasoning, even though capital has not decreased since the acquisitions in our study, the new owners' limited financial support to some of the target companies could be a first indicator that they might be sold off or closed in the future. We propose:

> **Proposition 6**: Following the acquisition by a Chinese company, a German *Mittelstand* target firm's access to capital is not likely to improve, while guarantees regarding financial support from the acquirer during economic downturns and transaction impediments from the Chinese government are likely to occur.

5.3.3 Reputation

Contrary to what many companies believe (E2), the Mittelstand's "Made in Germany"-reputation of producing high-quality products is very likely to be unharmed by Chinese acquisitions. This makes sense, given that the Chinese tend to keep their target firms at a distance. This finding is true for all companies in this study as well as for other popular acquisitions such as Lenovo's acquisition of Medion (E2). Managers from C2 and C3 reported that they had neither lost customers nor had there been any requests for quality guarantees following the acquisition. M1.2 mentioned that some customers asked about where the equipment they were buying was coming from and if any sensitive information about them was being shared with the new owner. M4.1's customers also asked about product origins but when M4.1 explains that C4 still produces in Germany, inviting them to inspect the production process, the new ownership structure was neglected by customers. Some customers also questioned the financial strength of C4 given that they had to accept a bid from a Chinese buyer. M4.1 replied to this question that C4 is still a well-positioned family business that is hoping to become financially independent soon. In a similar vein, M5.1 had to answer questions about what the acquisition would mean for C5's customers but he was able to reassure them. Andersson, Halvi, and Salmi (2001) claimed that the effect of acquisitions on customer relationships has largely been ignored in the literature. Particularly, they showed that *"effects of M&A vary in accordance with the connectedness that prevails between the companies before the merger. In the case of a related merger, the customer and supplier relations of the two companies are more likely to be influenced than in the case of an unrelated merger"* (p. 584). With only three out of five of the acquisitions in our study being related, we cannot support this claim. All in all, we propose:

Proposition 7: Following the acquisition by a Chinese company, a German *Mittelstand* target firm's reputation is very likely to remain unharmed.

6. CONCLUSION

The aim of this study is to explain the implications for the target firms of recent Sino-German acquisitions. This chapter provides a holistic view of those implications in accordance with the categories that emerged through the research process.

While we found seven implications split across three implication themes – workforce implications (top management, employees), operations implications (efficiency, reporting), and resource implications (market access, access to capital, reputation) – in general almost all people interviewed for this study emphasized that there has been little to no change in *Mittelstand* companies following the acquisitions by Chinese buyers. A similar observation has been made by academic scholars (Kale, Singh and Raman, 2009; Liu and Woywode, 2013) and commentators (Hans Böckler Stiftung, 2013).

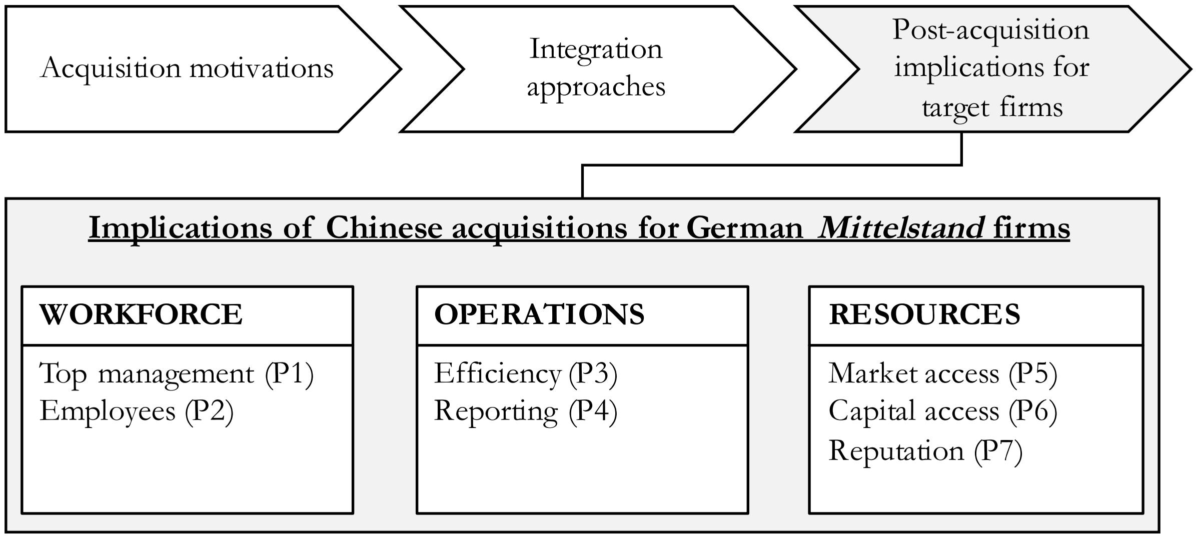

Figure 10: Summary of propositions

Workforce implications

Regarding implications for top management, our findings show that both target firms and buyers can act as advisors to the respective other party following the acquisition. This finding contributes to the literature on recent Sino-German acquisitions since the Germans have not previously been observed taking the advisory role. Our findings also show that the new owners usually do not interfere with their target firms, on neither an operational nor a strategic level. Finally, our findings reveal that, except for one company, there have been no departures of executives following an acquisition. This discovery supports some previous research but is contrary to much of the established knowledge on post-acquisition implications for target firms.

With regards to employees, there have been fears of layoffs in the studied companies. However, employment guarantees, relief from having avoided bankruptcy, and continuous communication from top management ensured that such concerns were temporary. Employment guarantees and relief from having avoided bankruptcy are to our knowledge not mentioned in the extant literature on how to avoid fear and concern among employees and resulting unproductive behaviors.

Operations implications

Implications for efficiency are primarily related to difficulties arising from cultural differences and the language barrier. All companies in this study experienced such struggles. Interestingly however, such complications are only discussed in relation to high integration acquisitions in the existent literature. There are also three issues that, to our knowledge, are not mentioned in the literature on post-acquisition efficiency: the labor market of the buyer's home market, the competence of the buyer's managers, and the differences in the definition of goal fulfillment. Moreover, with the Chinese only demanding to approve the budget as a reporting measure, German managers mostly decide what and how to report. This is in line with research on EMNC acquisitions but goes against general literature on post-acquisitions implications for target firms.

Resource implications

Market access has improved for some of the companies in this study through increased exports, through the development of new and cheaper products in cooperation with the Chinese, and through sales synergies. For other companies, market access has remained constant or even dropped. The increase of market share through exports and sales synergies is supported by extant literature but the increase of market share through the development of new products is not. In addition, market share remaining constant or waning is not brought up as an implication for target firms of recent Sino-German acquisitions in existing literature on this topic.

Access to capital has been below expectations for all firms but one. We could not obtain literature that predicts the kind of capital constraints on German target firms that we have observed. However, some research showed that capital restrictions can be an indicator for a coming divestiture.

Following this study, it turns out that German firms need not worry about their "Made in Germany"-reputation of producing high quality products given that the Chinese tend to keep their target firms at a distance. In a similar vein, customer relationships remained unharmed. To our knowledge, the effect of acquisitions on customer relationships has largely been ignored in the general literature on post-acquisition implications for target firms, making this a valuable finding.

7. DISCUSSION

This chapter discusses the outlook on Sino-German acquisitions, theoretical and practical contributions of our research as well as limitations of this study and directions for future research.

7.1 Outlook on Sino-German acquisitions

The Chinese integration approach – and a potential change thereof – plays a major role in the extent to which we will be able to further observe the implications for *Mittelstand* target firms identified in this thesis. In general, there are two possible future scenarios: status quo or greater integration. The to-date soft integration approach of Sino-German acquisitions might be a strategy in the global catch-up race. The strategic goal of the latecomer multinationals is to catch up with the incumbent multinational companies and move as fast as possible from imitation to innovation (Milelli, Hay and Shi, 2010). They want to acquire both "hard" knowledge to match incumbents' technologies and "soft" managerial skills "*to play the global game according to 'the rules of the game'*" (Liu and Woywode, 2013, p. 471). Child and Rodrigues (2005) argued that the Chinese MNCs will catch up with leading MNCs, calling other commentators *"too pessimistic about the ability and determination of the Chinese to learn and acquire key assets and competencies"* (p. 402). Gentile-Lüdecke (2013) proposed that the innovation capability of the target firm and the need for technological capability building of the acquirer is what results in the acquired firm maintaining its identity and autonomy. If the Chinese buyers were to catch up with the German target firms, they possibly would no longer have a strong incentive to keep the German firms at a distance. Instead, they would likely begin integrating to realize synergies (Haspeslagh and Jemison, 1991). In fact, we observed cases when the Chinese have access to the whole knowledge base of the *Mittelstand* firm (e.g. C5), indicating that gaining access to more advanced technologies is not a utopian ambition for buyers. Hence, while we could not actively observe any kind of perilous knowledge drainage to China, we cannot know what happens "behind the curtains." Nevertheless, the Chinese still lag behind the Germans regarding technological and managerial know-how (e.g. M2.1), which indicates that we are not likely to see any change in integration approaches in Sino-German acquisitions any time soon.

The future scenarios and development of Sino-German acquisitions will in part also be influenced by changes in politics or the lack of changes therein. The German government wants Germany to remain open for foreign investors. Yet, that notion is based on the principle of supporting market driven economies. This does not include acquisitions that are results of the strategy of the Chinese government. E3 argued that the Chinese government must either stop supporting acquisitions in Germany or allow German companies the same level of access to China as the Chinese have in Germany. However, according to some experts the basic idea behind the argument that the Chinese state is behind acquisitions is outdated (He and Lyles, 2008). More importantly, the German government is prohibited by EU regulation from stopping future Sino-German acquisitions, unless they can be considered a threat to public order and/or national security (E3).

7.2 Theoretical contributions

This thesis contributes to academia in two ways. First, this thesis contributes by academically assessing the case of Sino-German acquisitions. There have been heated discussions in media and politics about what Chinese acquisitions in Germany mean and how they are to be considered, dividing opinions and attitudes. We shed light on this discussion and illustrated what these acquisitions involve for the *Mittelstand* target firms and relevant stakeholders. Thereby, we engage in a sound and unbiased dialogue about what happens to *Mittelstand* firms after they have been bought by Chinese investors. Second, this thesis contributes by filling the research gap about implications for target firms in the case of light-tough integration acquisitions. Extant literature has focused on explaining the characteristics of hands-on integration acquisitions, and more recently of light-touch integration acquisitions. For hands-on integration acquisitions, implications for target firms are largely known. This is not yet the case for light-touch integration (cf. literature review). With this thesis, we attempt to help fill that gap. We have done so by identifying seven specific implications for target firms of light-touch integration acquisitions, which can be clustered into three implication themes. While the case setting of this study is the specific case of Chinese acquisitions in the German *Mittelstand*, the proposed framework of seven implications for target firms might hold true in other light-touch integration acquisitions, too.

7.3 Practical implications

This study provides practical implications for both managers and policy makers.

Managers

Managers of German *Mittelstand* firms should be aware of the implications that acquisitions by Chinese firms tend to involve. On the one hand, they should be conscious that access to the Chinese market and to financial support is often not available to German firms, contrary to their beliefs prior to the acquisition. Similarly, managers should be thoughtful about cultural differences and prepare for potential difficulties in day-to-day operations that might lead to frustration within their workforce. Cultural trainings could be helpful for coping with this matter. Furthermore, they should know that the reason why the Chinese do not initially interfere with their target firms' decision-making is probably that they are eager to learn from the Germans. In other words, when the Chinese have nothing left to learn they might no longer have any reason to postpone the synergy realizations that can be made possible by integrating their target firms and potentially move production to low-wage countries, for instance. Yet, this is unlikely to happen soon (cf. outlook on Sino-German acquisitions). On the other hand, managers should understand that their reputation will not be negatively affected by Chinese investments and that these investments hence can be considered as a good source for keeping operations running financially. Similarly, German managers can actively shape the business relationship with the Chinese investors and contribute to the overall success of the company, for instance through advice on appropriate technology to successfully penetrate the Chinese market.

Public and policy makers
While it is unclear from our study to what extent the Chinese government is behind the surge in Sino-German *Mittelstand* acquisitions, we argue that market forces matter in addition to a potential political agenda. Solely based on the findings of our study we recommend that German politicians should refrain from responding to public sentiment and attempt to be more positive towards Chinese acquisitions. That is, they should focus on highlighting the issue of equal opportunities for investments from and to China as opposed to joining in a gloomy perspective on Chinese investments per se. As such, German politicians should come to terms with the fact that the inevitable globalization of EMNCs will mean that many of their potential competitors in the developed world will be absorbed or outcompeted. That transition can be made beneficial also for the German economy through thoughtful policy that promotes investments and avoids politicization of the issue. Similarly, the German public must accept global business dynamics and attempt to encounter Chinese acquisitions with an open mind rather than unsubstantiated suspicion. As this study shows, German firms and the German public alike currently do not need to worry about Chinese acquisitions.

7.4 Limitations to contributions

There are limitations to our contributions, both in terms of reliability and validity. The reliability of our findings is limited in that we conducted only qualitative interviews, with a few managers, from a few *Mittelstand* companies relative to all those companies recently acquired by Chinese buyers. Similarly, as the phenomenon under scrutiny in this study has emerged in the near past and the interviewed companies have been involved in it rather recently, we could only understand the short-term implications of these acquisitions. That means, in the long term other implications might evolve from Sino-German acquisitions. The validity of our findings is limited since many categories emerged during the research and we were not able to address each of them in depth with the managers we interviewed. Therefore, the substantive theory that we have produced should also be tested further within the context to which it pertains.

7.5 Directions for future research

This study focused on exploring the kind of implications that result from Chinese acquisitions for German *Mittelstand* companies. We suggest that the reasons for the target firm implications in our study are threefold. First, the implications for top management, employees, reporting, and reputation might be due to the Chinese' willingness to learn from their target firms. Second, efficiency implications seem to be inherent outcomes of the foreignness of the buyer. Third, market and capital access implications appear to be the result of the sluggish growth of the Chinese market. These assumptions could be tested and explained individually by future studies. In a similar vein, dimensions that we did not specifically examine could be considered. For instance, the focus of studies could be on cultural differences in more detail as has been done in parts already (e.g. Liu and Woywode, 2013). Based on the limitations of our contributions, future research should further test if the implications that we have identified for target firms of Sino-German *Mittelstand* acquisitions are indeed prominent implications for acquisitions in general. Whilst this study allows for conclusions about the implications of Chinese acquisitions for *Mittelstand* firms, we argue that the concept of light-touch integration is the decisive factor that produces the specific implications. For this reason, the implications could be observed in other case settings of light-touch integration acquisitions as well. If our substantive theory about implications for target firms of Sino-German acquisitions proves helpful, future research could hence attempt to integrate our findings in the literature about acquisitions by EMNCs and other MNCs in general. Moreover, future research could address the financial implications for target firms of Sino-German acquisitions using quantitative research methods.

REFERENCE LIST

Andersson, A., Halvi, V. and Salmi, A., 2001. Can you buy a business relationship? On the importance of customer and supplier relationships in acquisitions. *Industrial Marketing Management,* 30(7), pp.575-586.

Antkiewicz, A. and Whalley, J., 2006. *Recent Chinese buyout activity and the implications for global architecture* (No. w12072). Cambridge: National Bureau of Economic Research.

Beel, J. and Gipp, B., 2009. Google Scholar's ranking algorithm: An introductory overview. In: Larsen, B. and Leta, L., ed. 2009. *Proceedings of the 12th International Conference on Scientometrics and Informetrics (ISSI'09),* Vol. 1, pp.230-241.

Beckmann, I.A.M., 2009. *Entrepreneurship-Politik: Neue Standortpolitik im politischen Spannungsfeld zwischen Arbeitsmarkt und Interessengruppen.* Weisenbad: VS Verlag für Sozialwissenschaften.

Bell, J., 2014. *Doing your research project: A guide for first-time researchers.* New York: McGraw-Hill Education.

Blumberg, B.F., Cooper, D.R. and Schindler, P.S., 2014. *Business research methods.* New York: McGraw-Hill Education.

Bryman, A, and Bell, E., 2011. *Business research methods.* New York: Oxford University Press.

Cannella, A.A., Jr. and Hambrick, D.C., 1993. Effects of executive departures on the performance of acquired firms. *Strategic Management Journal,* 14(S1), pp.137-152.

Capital, 2016. *Chinas Marsch durch Deutschland.* [online] Available at: http://www.capital.de/dasmagazin/chinas-marsch-durch-deutschland.html [Accessed 23 November 2016].

Chari, A., Chen, W. and Dominguez, K.M.E., 2012. Foreign ownership and firm performance: Emerging market acquisitions in the United States. *IMF Economic Review,* 60(1), pp.1-42.

Charmaz, K., 2008. Grounded Theory as an Emergent Method. In S. N. Hesse-Biber & P. Leavy (Eds.), *Handbook of emergent methods* (pp.155-172). New York: The Guilford Press.

Chatterjee, S., 1992. Sources of value in takeovers: Synergy or restructuring–implications for target and bidder firms. *Strategic Management Journal,* 13(4), pp.267-286.

Child, J. and Rodrigues, S.B., 2005. The internationalization of Chinese firms: A case for theoretical extension? *Management and Organization Review,* 1(3), pp.381-410.

Cho, Y.S. and La, K.A., 2014. The Impact of organizational citizenship behavior on synergy creation in mergers and acquisitions, according to levels of OCB and types of M&A. *Academy of Accounting and Financial Studies Journal,* 18(2), p.93-106.

CNC Communications, 2014. *Chinese investors - a nameless, faceless threat?* [pdf] Available at: http://www.cnc-communications.com/wp-content/uploads/2015/02/CNC_Chinese-Investment-Paper_EN-single-pages.pdf [Accessed 23 November 2016].

Deng, P., 2009. Why do Chinese firms tend to acquire strategic assets in international expansion? *Journal of World Business,* 44(1), pp.74-84.

Edmondson, A.C. and McManus, S.E., 2007. Methodological fit in management field research. *Academy of Management Review,* 32(4), pp.1246-1264.

Eisenhardt, K.M., 1989. Agency theory: An assessment and review. *Academy of Management Review,* 14(1), pp.57-74.

EY, 2016. *Chinesische Unternehmenskäufe in Europa: Eine Analyse von M&A-Deals 2005-2016.* [pdf] Available at: http://www.ey.com/Publication/vwLUAssets/ey-chinesische-unternehmenskaeufe-in-europa/$FILE/ey-chinesische-unternehmenskaeufe-in-europa.pdf [Accessed 25 January 2017].

Financial Times, 2011. *Family values galvanise toolmaker.* [online] Available at: https://www.ft.com/content/4b8025b4-6f5e-11e0-952c-00144feabdc0 [Accessed 24 January 2017].

Financial Times, 2016a. *German angst over Chinese M&A.* [online] Available at: https://www.ft.com/content/e0897e24-598e-11e6-8d05-4eaa66292c32 [Accessed 23 November 2016].

Financial Times, 2016b. *Germany's hidden champions.* [online] Available at: https://www.ft.com/content/a814dfc8-66d3-11dc-a218-0000779fd2ac?nclick_check=1 [Accessed 23 November 2016].

Fine, G.A. and Elsbach, K.D., 2000. Ethnography and experiment in social psychological theory building: Tactics for integrating qualitative field data with quantitative lab data. *Journal of Experimental Social Psychology,* 36(1), pp.51-76.

Flick, U., 2009. *An introduction to qualitative research.* London: Sage.

Frankfurter Allgemeine Zeitung, 2016. *Mittelstand: Der Chef kommt jetzt aus China.* [online] Available at: http://www.faz.net/aktuell/beruf-chance/arbeitswelt/Mittelstand-der-chef-kommt-jetzt-aus-china-14154240.html?printPagedArticle=true#pageIndex_2 [Accessed 23 November 2016].

Gentile-Lüdecke, S., 2013. *What motivates German companies to agree to be sold to Chinese investors? The case of Chinese acquisitions in the German automotive sector.* [pdf] Available at: http://www.chinagoesglobal.org/wp-content/uploads/2013/08/Gentile_What_motivates_German_companies_to_agree_to_be_sold_to_Chinese_investors.pdf [Accessed 24 January 2017].

Gillham, B., 2005. *Research interviewing: The range of techniques: A practical guide.* New York: McGraw-Hill Education.

Glaser, B. G. and Strauss, A. L., 1967. *The discovery of grounded theory: Strategies for qualitative research.* New York: Aldine.

Graebner, M.E., 2004. Momentum and Serendipity: How acquired leaders create value in the integration of technology firms. *Strategic Management Journal,* 25(8/9), pp.751-777.

Häkkinen, L. and Hilmola, O.P., 2005. Integration and synergies of operations in horizontal M&A. *International Journal of Management and Enterprise Development,* 2(3-4), pp.288-305.

Haleblian, J., Devers, C.E., McNamara, G., Carpenter, M.A. and Davison, R.B., 2009. Taking stock of what we know about mergers and acquisitions: A review and research agenda. *Journal of Management,* 35(3), pp.469-502.

Hambrick, D.C. and Cannella, A.A., 1993. Relative standing: A framework for understanding departures of acquired executives. *Academy of Management Journal,* 36(4), pp.733-762.

Handelsblatt, 2016. *China kauft ein: Der Drache ist hungrig.* [online] Available at: http://www.handelsblatt.com/unternehmen/industrie/china-kauft-ein-der-drache-ist-hungrig/12970350.html [Accessed 23 November 2016].

Hans Böckler Stiftung, 2012. *Wenn Kommunisten einkaufen gehen.* [online] Available at: https://www.boeckler.de/40639_40665.htm [Accessed 23 November 2016].

Hans Böckler Stiftung, 2013. *Ausverkauf der Hidden Champions?* [pdf] Available at: http://www.boeckler.de/pdf/mbf_emons_china1.pdf [Accessed 23 November 2016].

Haspeslagh, P.C. and Jemison, D.B., 1991. *Managing acquisitions: Creating value through corporate renewal (Vol. 416).* New York: Free Press.

He, W. and Lyles, M.A., 2008. China's outward foreign direct investment. *Business Horizons,* 51(6), pp.485-491.

Hofstede, G., 1984. *Culture's consequences: International differences in work-related values (Vol. 5).* London: Sage.

Holme, I.M., Solvang, B.K. and Nilsson, B., 1997. *Forskningsmetodik: om kvalitativa och kvantitativa metoder*. Lund: Studentlitteratur.

Huitt, W., 1998. *Critical thinking: An overview*. Educational Psychology Interactive. Valdosta, GA: Valdosta State University.

Institut für Mittelstandsforschung Bonn, 2016a. *Definition "Deutscher Mittelstand"*. [online] Available at: http://en.ifm-bonn.org/definitions/definition-deutscher-Mittelstand/ [Accessed 23 November 2016].

Institut für Mittelstandsforschung Bonn, 2016b. *Mittelstand im Überblick*. [online] Available at: http://www.ifm-bonn.org/statistiken/mittelstand-im-ueberblick/#accordion=0&tab=1 [Accessed 06 June 2017].

Kale, P., Singh, H. and Raman, A.P., 2009. Don't integrate your acquisitions, partner with them. *Harvard Business Review,* 87(12), pp.109-115.

Krishnan, H.A., Miller, A. and Judge, W.Q., 1997. Diversification and top management team complementarity: Is performance improved by merging similar or dissimilar teams? *Strategic Management Journal,* 18(5), pp.361-374.

Krug, J.A. and Hegarty, W.H., 2001. Predicting who stays and leaves after an acquisition: A study of top managers in multinational firms. *Strategic Management Journal,* 22(2), pp.185-196.

Larsson, R. and Finkelstein, S., 1999. Integrating strategic, organizational, and human resource perspectives on mergers and acquisitions: A case survey of synergy realization. *Organization Science,* 10(1), pp.1-26.

LeCompte, M., and Goetz, J., 1982. Problems of reliability and validity in ethnographic research. *Review of Educational Research,* 52(1), pp.31-60.

Lee, T.W., Mitchell, T.R. and Sablynski, C.J., 1999. Qualitative research in organizational and vocational psychology, 1979–1999. *Journal of Vocational Behavior,* 55(2), pp.161-187.

Levinger, H. and Hansakul, S., 2016. China and the EU: Where next in bilateral trade and investment relations? *China-EU Law Journal,* 5(1), pp.55-71.

Lichtenberg, F.R., Siegel, D., Jorgenson, D. and Mansfield, E., 1987. Productivity and changes in ownership of manufacturing plants. *Brookings Papers on Economic Activity,* 1987(3), pp.643-683.

Lincoln, Y.S. and Guba, E.G., 1985. *Naturalistic inquiry (Vol. 75).* London: Sage.

Liu, Y. and Woywode, M., 2013. Light-touch integration of Chinese cross-border M&A: The influences of culture and absorptive capacity. *Thunderbird International Business Review,* 55(4), pp.469-483.

Locke, K., 2001. *Grounded theory in management research*. London: Sage.

Lubatkin, M., Schweiger, D. and Weber, Y., 1999. Top management Turnover in related M&A's: An additional test of the theory of relative standing. *Journal of Management,* 25(1), pp.55-73.

Luo, Y. and Tung, R.L., 2007. International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies,* 38(4), pp.481-498.

Madhok, A. and Keyhani, M., 2012. Acquisitions as entrepreneurship: asymmetries, opportunities, and the internationalization of multinationals from emerging economies. *Global Strategy Journal,* 2(1), pp.26-40.

March, J.G., 1991. Exploration and exploitation in organizational learning. *Organization Science,* 2(1), pp.71-87.

Mathews, J.A., 2006. Dragon multinationals: New players in 21st century globalization. *Asia Pacific Journal of Management*, 23(1), pp.5-27.

Mercator Institute for China Studies, 2016. *Midea's bid for Kuka: Is Germany's industry 4.0 for sale?* [online] Available at: https://blog.merics.org/en/blog-post/2016/05/19/mideas-bid-for-kuka-is-germanys-industry-40-for-sale/ [Accessed 10 September 2016].

Mercator Institute for China Studies and Rhodium Group (MICSRG), 2015. *Chinese FDI in Europe and Germany. Preparing for a New Era of Chinese Capital.* [pdf] Available at: http://rhg.com/wp-content/uploads/2015/06/ChineseFDI_Europe_Full.pdf [Accessed 23 November 2016].

Milelli, C., Hay, F. and Shi, Y., 2010. Chinese and Indian firms in Europe: characteristics, impacts and policy implications. *International Journal of Emerging Markets,* 5(3/4), pp.377-397.

Miles, M.B. and Huberman, A.M., 1994. *Qualitative data analysis: An expanded sourcebook*. London: Sage.

Morosini, P., Shane, S. and Singh, H., 1998. National cultural distance and cross-border acquisition performance. *Journal of International Business Studies,* 29(1), pp.137-158.

Nahavandi, A. and Malekzadeh, A.R., 1988. Acculturation in mergers and acquisitions. *Academy of Management Review,* 13(1), pp.79-90.

O'Shaughnessy, K.C. and Flanagan, D.J., 1998. Determinants of layoff announcements Following M&As: An empirical investigation. *Strategic Management Journal,* 19(10), pp.989-999.

Pablo, A.L., 1994. Determinants of acquisition integration level: A decision-making perspective. *Academy of Management Journal,* 37(4), pp.803-836.

Peng, G.Z. and Beamish, P.W., 2014. The effect of host country long term orientation on subsidiary ownership and survival. *Asia Pacific Journal of Management,* 31(2), pp.423-453.

PwC, 2016. *Chinesische M&A-Aktivitäten in Deutschland.* [pdf] Available at: https://www.pwc.de/de/deals/assets/chinesische-m-und-a-investitionen-in-deutschland-juni-2016.pdf [Accessed 23 November 2016].

Reason, P. and Rowan, J. eds., 1981. *Human inquiry: A sourcebook of new paradigm research.* Chichester: J. Wiley.

Rui, H. and Yip, G.S., 2008. Foreign acquisitions by Chinese firms: A strategic intent perspective. *Journal of World Business,* 43(2), pp.213-226.

Salter, M.S. and Weinhold, W.A., 1981. Choosing compatible acquisitions. *Harvard Business Review,* 59(1), pp.117-127.

Saunders, M., Lewis, P. and Thornhill, A., 2009. *Research methods for business students. 5th ed.* Harlow: Pearson Education Limited.

Schweizer, L., 2005. Organizational integration of acquired biotechnology companies into pharmaceutical companies: The need for a hybrid approach. *The Academy of Management Journal,* 48(6), pp.1051-1074.

Scott, J., 1990. *A matter of record: Documentary sources in social research.* Cambridge, UK: Polity Press.

Seawright, J. and Gerring, J., 2008. Case selection techniques in case study research a menu of qualitative and quantitative options. *Political Research Quarterly,* 61(2), pp.294-308.

Seo, M.-G. and Hill, N.S., 2005. Understanding the human side of merger and acquisition: An integrative framework. *The Journal of Applied Behavioral Science,* 41(4), pp.422-443.

Silverman, D., 2013. *Doing qualitative research: A practical handbook.* London: Sage.

Sinetar, M., 1981. Mergers, morale and productivity. *Personnel Journal,* 60(11), pp.863-867.

Singh, H. and Montgomery, C.A., 1987. Corporate acquisition strategies and economic performance. *Strategic Management Journal,* 8(4), pp.377-386.

Song, S., 2014. Entry mode irreversibility, host market uncertainty, and foreign subsidiary exits. *Asia Pacific Journal of Management,* 31(2), pp.455-471.

Su, C. and Littlefield, J.E., 2001. Entering guanxi: A business ethical dilemma in mainland China? *Journal of Business Ethics,* 33(3), pp.199-210.

Sun, S.L., Peng, M.W., Ren, B. and Yan, D., 2012. A comparative ownership advantage framework for cross-border M&As: The rise of Chinese and Indian MNEs. *Journal of World Business,* 47(1), pp.4-16.

Sutton, R.I. and Staw, B.M., 1995. What theory is not. *Administrative Science Quarterly*, 40(3), pp.371-384.

Taras, V., Kirkman, B.L. and Steel, P., 2010. Examining the impact of Culture's consequences: a three-decade, multilevel, meta-analytic review of Hofstede's cultural value dimensions. *Journal of Applied Psychology,* 95(3), pp.405-439.

The Economist, 2016a. *German lessons.* [online] Available at: http://www.economist.com/news/business/21606834-many-countries-want-Mittelstand-germanys-it-not-so-easy-copy-german-lessons [Accessed 23 November 2016].

The Economist, 2016b. *The rise of state capitalism.* [online] Available at: http://www.economist.com/node/21543160 [Accessed 23 November 2016].

Unternehmeredition, 2013. M&A China/Deutschland. [pdf] Available at: http://www.unternehmeredition.de/Produkt/unternehmeredition-verlagsspecial-ma-chinadeutschland-2013-deutsch/ [Accessed 23 November 2016].

Unternehmeredition, 2014. M&A China/Deutschland. [pdf] Available at: http://www.unternehmeredition.de/Produkt/unternehmeredition-ma-chinadeutschland-22014/ [Accessed 23 November 2016].

Very, P. and Schweiger, D.M., 2001. The acquisition process as a learning process: Evidence from a study of critical problems and solutions in domestic and cross-border deals. *Journal of World Business,* 36(1), pp.11-31.

Wang, J., Wang, G.G., Ruona, W.E.A. and Rojewski, J.W., 2005. Confucian values and the implications for international HRD. *Human Resource Development International,* 8(3), pp.311-326.

Weber, Y., 1996. Corporate cultural fit and performance in mergers and acquisitions. *Human Relations,* 49(9), pp.1181-1202.

Weber, Y., Shenkar, O. and Raveh, A., 1996. National and corporate cultural fit in mergers/acquisitions: An exploratory study. *Management Science,* 42(8), pp.1215-1227.

Weber, Y., Tarba, S.Y. and Reichel, A., 2011. A model of the influence of culture on integration approaches and international mergers and acquisitions performance. *International Studies of Management & Organization,* 41(3), pp.9-24.

Yahoo Finanzen Deutschland, 2016. *Jetzt auch Osram? Chinesische Investoren haben ein Auge auf das Unternehmen geworfen.* [online] Available at: https://de.finance.yahoo.com/nachrichten/osram-chinesische-investoren-haben-auge-142807141.html [Accessed 23 November 2016].

Yin, R.K., 2010. *Qualitative research from start to finish.* New York: Guilford Publications.

Zeit Online, 2016a. *Flughafen Lübeck: Völlig losgelöst.* [online] Available at: http://www.zeit.de/2015/26/flughafen-luebeck-investor/komplettansicht [Accessed 23 November 2016].

Zeit Online, 2016b. *Investition: Den Chinesen zum Fraß?* [online] Available at: http://www.zeit.de/2016/25/investition-china-deutsche-technologiefirmen/komplettansicht [Accessed 23 November 2016].

APPENDIX

Exhibit 1: Interview guide companies

Note: This is the final version of the interview guide after undergoing several iterations and improvements as we progressed in the data collection process. Please refer to 2.2 and 2.4 for an explanation of the data collection.

1) What is the background of the buyer (e.g. state involvement)?
2) Was it a related (i.e. same market/product) or unrelated acquisition?
3) Who approached whom before the acquisition?
4) What was the goal of the acquisition from your perspective? And from the buyer's perspective?
5) What division are you working in? Where in the value chain does that happen?
6) What is your function in the company (areas of responsibility)? Only national scope or international scope?
7) Has anything changed after the acquisition?
8) Details of change (please answer even if response to question 7) was "no")
   a) Have processes (i.e. how the work is being done; order/nature of working process steps) for you and/or your division changed?
   b) Has decision-making power/autonomy of you and/or your division changed?
   c) Has the reporting structure (frequency, content, receiver) of you and/or your division changed?
   d) Have the available resources (e.g. money, time, more staff/lay-offs, knowledge, technology, support) for you and/or your division changed?
   e) Have you had new market access (e.g. products, regions) after the acquisitions?
   f) Has the customer perception (questions by customers, customers that do not buy products anymore) changed?
   g) Has your employees' perception changed (e.g. happy, indifferent, unhappy)?
9) What are your perception of change and how would you explain what has happened?
   a) If there has been change:
      i) Why was there change?
      ii) What do you think about it?
   b) If has been no change:
      i) Why was there no change?
      ii) What do you think about it?
      iii) Do you wish that the Chinese would have changed something?
      iv) What exactly do the Chinese do? How does the cooperation work?
      v) Are there any restrictions?
10) Future situation:
    a) Do you expect (further) change to happen? Is it likely to see a change back to the previous situation? What makes you think so?
11) Have you been in touch with Chinese employees or investors?
    a) How regularly are you in touch with them?

   b) What does the interaction look like (e.g. how actively do the Chinese ask questions)?
12) Have you experienced cultural difficulties in above situations/regardless of contact?

Exhibit 2: Interview guide for consultant and editor

Note: This is the final version of the interview guide after undergoing several iterations and improvements as we progressed in the data collection process. Please refer to 2.2 and 2.4 for an explanation of the data collection.

1) Why do Chinese firms invest in Germany?
2) How do Chinese firms invest in Germany?
3) Why are 82 % of entries acquisitions? Is it because they can get faster asset access?
4) Are acquisitions rather unrelated (market/product/technology) or related acquisitions?
5) Who approached whom before the acquisition?
6) High-level: What usually changes in the target firms following Sino-German acquisitions?
7) Details of change for different parts of the value chain
   a) Do processes (i.e. how the work is being done; order/nature of working process steps) change?
   b) Does decision-making power/autonomy change? Does management keep its decision-making power? Is that good or bad?
   c) Does the reporting structure (frequency, content, receiver) change?
   d) Do available resources (e.g. money, time, more staff/lay-offs, knowledge, technology, support) change? Does the location of jobs remain? Is that good or bad?
   e) Does the brand remain? Is that good or bad?
   f) Is there new market access (e.g. products, regions)?
   g) Does the customer perception (questions by customers, customers that do not buy products anymore) change?
   h) Does the employees' perception (happy, indifferent, unhappy) change?
      i) Is there a loss of morale?
      ii) Is there a lack of productivity or procrastination (due to anxiety)?
8) Interaction with the Chinese investor:
   a) Is the level of integration not too low in this case? Is it possible to get synergies/positive outcomes without integrating?
   b) Are the investors missing out on sharing markets/sales/resources/capital?
   c) Why are there constantly changing positions, what about guanxi?
   d) Are the investors too focused on other acquisitions? Are there signs of hubris?
   e) Are there cultural difficulties and conflicts?
9) Different outcomes depending on changes after the acquisition
   a) If there has been change:
      i) Do the investors sometimes successfully integrate, or do they fail when they try?
      ii) In what cases does change occur, what is different?
         (1) What is the ownership-structure: state vs privately owned (buyers and sellers)?
         (2) What is the Chinese firms' experience in internationally doing business and in doing M&As?
         (3) Are the acquisitions related rather than unrelated?

b) If there has been no change:
   i) In what cases does change occur, what is different?
      (1) Ownership-structure, state vs privately owned (buyers and sellers)?
      (2) The CN firms experience in internationally doing business & M&As?
      (3) Related rather than unrelated M&As?
   ii) What exactly do the Chinese do? How does the cooperation work?
   iii) Is the long-termism of the Chinese culture causing LTI or is it just that the Chinese wouldn't know how to integrate even if they wanted to?
   iv) Are there cultural issues despite LTI (major drawbacks to LTI/problems it can't solve)?

10) Future situation:
   a) How will the situation develop? Will the Chinese continue to use LTI? Why/why not? Does the approach make sense?

Exhibit 3: Interview guide for political representative

1) How would you describe the increasing trend of Chinese acquisitions in the German *Mittelstand* since 2010 with regards to implications for the German target firms & for German competitiveness?
   a) Do you (i.e. the German government) think this phenomenon has had a positive or negative impact…
      i) … on target firms
      ii) … on German competitiveness
   b) *In case they need a hint*/discuss
      i) Target firms:
         (1) Changes:
            (a) positive: (e.g. financial support & market access)
            (b) negative: (e.g. day-to-day efficiency)
         (2) No changes:
            (a) positive: (e.g. decision-making autonomy)
            (b) negative: (e.g. lack of financial support & market access)
      ii) German competitiveness:
         (1) Technology & management skill transfer that might have a catch-up effect by the Chinese investor
2) How do you think the current trend will develop in the future?
   a) Do you think the impact will be similar or different:
      i) On target firms?
      ii) On German competitiveness?
3) Given the short-term impact on target firms and German competitiveness,…
   a) … what policies have you already implemented to make sure they benefit?
   b) … what policies are you currently working on?
4) What policies do you believe will have to be put into place in the face of the developments you believe will take place in the future?

Exhibit 4: All identified Sino-German acquisitions

TARGET	YEAR OF ACQUISITION	MITTELSTAND
Lutz Maschinen und Anlagenbau	2003	n/a
Weiz Industrieprodukte GmbH	2003	n/a
Schiess Tech GmbH	2004	n/a
Dürkopp Adler AG	2004	n/a
Wohlenberg Werkzeugmaschinen GmbH	2004	n/a
Kelch GmbH & Co KG	2005	n/a
Waldrich Coburg GmbH & Co KG	2005	n/a
Grosse Jac Webereimaschinen GmbH	2005	n/a
KSL-Kuttler Automation Systems	2007	n/a
HPTec GmbH	2007	n/a
Flughafen Schwerin-Parchim	2007	n/a
TGE Gas Investment	2008	n/a
MILES GmbH	2008	n/a
Dystar Textilfarben	2008	n/a
Vensys Energy AG	2008	n/a
KSL Kuttler	2008	n/a
Brückner Maschinenbau (Film Production Facility)	2009	n/a
KHD Humboldt Wedag International AG	2010	yes
EMAG Holding GmbH	2010	yes
Medion	2011	yes
KSM Castings GmbH	2011	yes
SaarGummi Deutschland GmbH	2011	yes
Fluitronics GmbH	2011	yes
Hyva	2011	yes
MWH Metallwerk Helmstadt GmbH	2011	yes
KION Group	2012	yes
Preh	2012	yes
Schwing	2012	yes
Kiekert AG	2012	yes
Putzmeister Holding	2012	yes
AWECO Applicance Systems & Co	2012	yes
ThyssenKrupp Tailored Blanks	2012	yes

Oerlikon Saurer; Oerlikon Schlafhorst; Oerlikon Textile Components	2012	yes
Ziemann Gruppe (some assets only)	2012	yes
A. Monforts Textilmaschinen & Co	2012	yes
Golden Tulip Hotel Frankfurt	2012	yes
HIB-Trim Part Solutions Bruchsal & Co	2013	yes
TLT-Turbo GmbH	2013	yes
PFAFF Industriesysteme und Maschinen	2013	yes
Conergy SolarModule	2013	yes
Flex-Elektrowerkzeuge GmbH	2013	yes
Grohe AG	2013	yes
HAZEMAG & EPR GmbH	2013	yes
Asola Technologies GmbH	2013	yes
Kugel- und Rollenlagerwerk Leipzig GmbH	2013	yes
SuK Kunststofftechnik GmbH	2013	yes
Örlikon (only textile components business)	2013	yes
Buderus Feinguss GmbH	2013	yes
Innoventis GmbH	2013	yes
Gigaset AG	2013	yes
GIW Ges. für innovative Werkzeugsysteme	2013	yes
TELEFUNKEN Semiconductors GmbH	2013	yes
ZF (only rubber business)	2013	yes
KSL Keilmann Sondermaschinenbau	2013	yes
Thielert AG	2013	no
Hilite International, Inc.	2014	yes
S.A.G. Solarstrom AG	2014	yes
Quin GmbH	2014	yes
WEGU Holding GmbH	2014	yes
M-Tec Mathis Technik GmbH	2014	yes
WILBERT Turmkrane GmbH	2014	yes
Hanwha Q Cells	2014	yes
CYBEX GmbH	2014	yes
KACO GmbH & Co KG	2014	yes
ESKA Automotive GmbH	2014	yes
Diasys Diagnostic	2014	yes
Schweizer Elektronik AG	2014	yes

BHF Bank	2014	no
Medisana AG	2015	yes
Alno AG	2015	yes
Waldaschaff Automotive GmbH	2015	yes
krauth technology GmbH	2015	yes
KTG Agrar SE	2015	yes
Berkenhoff GmbH	2015	yes
BENDALIS GmbH	2015	yes
Compo Expert GmbH	2015	yes
H Stoll AG & Co KG	2015	yes
IMD Natural Solutions GmbH	2015	yes
Lyomark Pharma GmbH	2015	yes
Cardionovum GmbH	2015	yes
METZ Werke-Cons Elec Bus	2015	yes
Albert Ziegler GmbH & Co KG	2015	yes
apt Hiller GmbH	2015	no
Dirk Bikkembergs	2015	no
HG Sales GmbH	2015	no
MBVG	2015	no
OHE Mining Technology GmbH	2015	no
Triumph International (Dorina)	2015	no
Hauck & Aufhaeuser Privatbank	2015	no
Weier Antriebe und Energietechnik GmbH	2016	yes
Technisat Digital (only the Autoinformatics business)	2016	yes
Sideo Voigt GmbH	2016	yes
tedrive Steering Systems GmbH	2016	yes
Metalsa	2016	yes
Rail Power Systems GmbH	2016	yes
OPS Ingersoll Funkenerosion GmbH	2016	yes
AMK Holding GmbH & Co KG	2016	yes
Bilfinger Water Technology GmbH	2016	yes
Compo Consumer	2016	yes
Bigpoint GmbH	2016	yes
Schäfer HPS GmbH	2016	yes
Transcatheter Technologies GmbH	2016	yes
Crelux GmbH	2016	yes

Gobler Hirthmotoren GmbH & Co KG	2016	yes
Balfour Beatty Rail Signal GmbH	2016	yes
Number26 GmbH	2016	yes
Manz AG	2016	yes
KUKA AG	2016	yes
EEW Energy	2016	yes
KraussMaffei	2016	yes
Aixtron SE	2016	yes
WITA Wilhelm Taake GmbH	2016	yes
CIDEON Holding GmbH & Co KG	2016	yes
Nordic Yards Wismar (only some assets)	2016	yes
Schimmel-Verwaltungs	2016	yes
Alecto GmbH	2016	yes
Osram	2016	yes
WindMW GmbH	2016	no
Elgato Systems GmbH	2016	no
EuRec Environmental Technology GmbH	2016	no