

Cultural Integration Strategy in Cross-Border Mergers and Acquisitions: A Case Study on Haier Aqau Corporation

Yemin Wang

Collage of Economics and Management, Chongqing Normal University, Chongqing, 401331, China
cuijia@ldy.edu.rs

Abstract. This paper analyzes a cross-border acquisition case in the home appliance industry, Haier AQAU Corporation, which took place between Japanese and Chinese enterprises from 2002 to 2012. This study aims to investigate the strategies that can facilitate the integration of two distinct cultures, China and Japan, following a cross-border acquisition. This research specifically examines the cultural integration strategies used by the acquirer in a successful cross-border merger to effectively reserve and blend the core resources of two companies, utilizing publicly available interviews and information from company websites. The study highlights three crucial elements that cultural integration fostered: the efficiency of enterprise integration, the effectiveness of the promotion system, and the overall performance. Furthermore, this paper offers suggestions for establishing a flexible organizational structure, enhancing employee satisfaction, and creating a compensation system that closely aligns with organizational culture. Future cultural integration approaches to cross-border acquisition between China and Japan could potentially utilize this article to promote maximum win-win for both sides.

Keywords: Cross-border Mergers and Acquisitions; Cultural Integration; Culture Shock.

1. Introduction

1.1. Research Background

Under the situation that China joined the World Trade Organization (WTO) in 2001, multiple local Chinese enterprises, such as Haier, tried to go abroad and detect their own market because of the sharp change in the home appliance market. In 2000, a single foreign brand held the fifth position in China's refrigerator market, ranking fifth with a minor share; however, foreign brands supplanted the third and fourth positions in the top five. Similarly, in 2000, foreign brands had no presence in the top five of the air conditioning and washing machine markets. However, in 2002, foreign brands crowded in. During that period, the Japanese home appliance market experienced a shrinkage due to the high penetration rates of common products and a decline in demand. On the other hand, new products that incorporated advanced technology and diverse design perspectives continued to thrive and grow over time. For several years, Sanyo Electric, a prominent Japanese home appliance company, faced financial losses. It is imperative for Samsung Electronics to expand their market reach in order to boost their profits, while Haier capitalized on the mature Japanese home appliance technologies and the extensive sales channels that connect numerous Southeast Asian countries. Given this situation, the two sides reached a partnership in 2007 to execute a series of cooperations that included exchanging sales channels in different countries and sharing patented technologies. In 2012, Haier merged with AQUA, which belongs to Synyo Electronic. Haier formed "Haier AQAU Corporation" after nearly a decade of adjustment and negotiation.

Cross-border mergers and acquisitions have been a heated topic of discussion since economic globalization. In recent years, numerous scholars have conducted extensive research on this topic. After reviewing the references, this paper has identified several aspects that nearly three years of research have addressed: Khan and colleagues investigated the socialization integration mechanisms [1]. They revealed a conceptual model for successful cross-border mergers and acquisitions by emerging economies' multinational enterprises [1]. Additionally, these authors highlighted the

mediating role of socialization integration mechanisms for successful integration [1]. Furthermore, the economic policy of the home country had been the object of research by Li et al. [2]. They used quantitative research methods to investigate the effects of cross-border mergers and acquisitions on the uncertain economic policy of the host country [2]. Pereira et al. also analyzed how the state-ownership and acquisition experience affects cross-border mergers and acquisitions, drawing on the resource-based view and organizational learning theory [3].

Despite extensive research on cross-border mergers and acquisitions over the past few decades, the focus has primarily been on the impact of economic policy, the motivation behind cross-border mergers and acquisitions, and strategic management. Despite the challenges, organizational change and culture integration remain the most challenging aspects of the acquisition process, garnering significant attention in recent years. However, only a handful of studies have provided effective solutions and reliable references for addressing cultural integration. There has been limited previous research on the integration of culture between Chinese and Japanese companies. Therefore, what strategies can employ to foster the integration of these two distinct cultures following cross-border mergers and acquisitions?

One approach to solving this problem involves using a case study. It was of interest to investigate how cross-border companies successfully solved the problem of cultural integration between Japan and China and what measures they had taken for that. Thus, the purpose of this paper is to summarize the methods and their significance through a case study. The contributions made here have wide applicability; these conclusions can promote the success of mergers and acquisitions between Chinese and Japanese enterprises in the future.

This paper has been organized as follows: First, the case of Haier AQAU Corporation's developing stages and histories is revealed. Secondly, the relative methods of multinational enterprises' culture integration that were analyzed in this case are concluded, thereby explaining how these conclusions affected the success of this acquisition case. The final section presents several recommendations based on current market data and transnational merger trends.

2. Case Description

AQAU was born in 2006 in Hoshi Prefecture, Japan. It is one of SANYO ELETRIC's sub-brands. The name AQUA originates from the phrase "Authentic Question, Unique Answer." AQAU, the local Japanese home appliance company, offers a variety of products such as refrigerators, washing machines, and cleaners, with a particular focus on the community laundry market. Beginning in 1971, AQAU was the first manufacturer to produce and sell coin-operated commercial laundry equipment and maintained a leading position in that Japanese industry [4]. Due to strategic adjustments, SANYO ELETRIC initially collaborated with Haier, forming a joint venture known as "SANYO ELETRIC AQAU Corporation" to exchange sales channels in Japan and China. Additionally, they made efforts to enter a new home appliance market in another country to increase profits. During the collaboration, SANYO ELETRIC turned their attention to the new energy industry and intended to sell the related home appliance business. Haier renamed this company as "Haier AQAU Corporation" after taking over the joint venture in 2012. Through this acquisition, Haier took complete control of all of the shares.

Despite AQUA's formation in 2006 as a sub-brand of SANYO ELETRIC, it carries forward the over 50-year rich history of SANYO ELETRIC in the home appliance industry [4]. AQAU processes all the advanced technologies and patents for home appliances. Moreover, AQAU considers "unique innovation" and "environmental protection and energy saving" to be its missions. However, due to the decline in Japanese home appliances and the outdated product design resulting from delayed responses to customer demands, AQAU experienced a long-term loss, despite maintaining the largest share in the community laundry market.

In 2007, Haier and Sanyo Electric started a comprehensive cooperation on refrigerators. Meanwhile, they funded "Sanyo Electronic AQAU Corporation," a company under the control of both enterprises. Haier holds 60% of the shares, while Sanyo Electronic holds another 40% [4]. During the collaboration, the refrigerator department of AQAU achieved its first profits after more than a decade of losses. Through this cooperation project, Haier also improved their invention abilities in home appliance technologies by sharing advanced patented technologies with AQAU.

Haier began the merger of "SANYO ELETRIC AQAU Corporation" in March 2011. After more than a year of negotiation and adjustment, Haier fully controlled SANYO ELETRIC, took over the remaining 40% of shares, and renamed the company as "Haier AQAU Corporation" in 2012. It is evident that after 8 months of merger, AQAU turned losses into profits [4]. At the same time, Haier's sales in the Japanese market were 4.5 times those of 2011 [4]. Obviously, after these cross-border mergers and acquisitions, AQAU and Haier became two of the Japanese first-line home appliance brands.

Currently, Haier AQAU Corporation devotes itself to continuous technological innovation and differentiated products. These strategies are undeniably successful. Haier AQAU Corporation's market share of medium and large refrigerators and freezers ranks first in the Japanese industry, even more than local traditional brands like Panasonic [4]. Specifically, it accounts for 70% of the community laundry market, making it a true leader in the Japanese home appliance industry [4].

3. Analysis on Problems

3.1. Reasons on Enterprise Integration Efficiency

Haier AQAU Corporation's success in the cross-border acquisitions area is relevant. Reasonable cultural integration measures enhance the efficiency of cross-border mergers and acquisitions, ultimately boosting sales. This type of cultural integration, also known as infiltration, demonstrates that they advance the acquisition process by maintaining their own cultural standards, seeking common ground, and absorbing excellent qualities for the development of a new corporate culture, which serves as a buffer against culture shock. After the acquisition, the management style of Haier AQAU Corporation did not completely change. It began to adopt a dual-track system, which meant gradually bringing Haier's management ideas into this typical Japanese organization. To be specific, AQUA maintained the original organizational structure and staff but shifted the responsibilities of top positions from making decisions to supporting the employees' work by providing resources, applying funding, and coordinating various departments. At the same time, employees should pay more attention to changes in customer' demands and market trends to keep pace with the times. Single aristocrats make up a significant portion of the population in Japan, and while single female users typically own washing machines with capacities ranging from 4 to 8 kg, they often fail to fully utilize them. Haier AQAU Corporation successfully discovered these demands and invented a differentiated product, the "personal washing machine," with a capacity of 2.3 kg [4]. Since then, AQAU has continued to contribute to the community washing industry, and the coin-operated laundry industry has grown rapidly in Japan over the past 40 years. At present, the number of community washing shops in Japan has exceeded 22,000, almost a 20% increase over five years ago, and AQUA community washing ranks first with a market share of more than 70% [4].

Theoretically, it can be illustrated how cultural integration influences mergers. Berry proposed the cultural integration model of enterprise mergers and acquisitions [5]. He divided the model into four sections: cultural integration, cultural assimilation, cultural separation, and cultural deculturation [5]. In fact, Weber and others investigated a model about how cultural integration approaches influence the performance of acquisitions in 2014 [6]. These scholars discovered the combined effects of corporate culture, national culture, and synergy potential on multiple integration approaches that influence acquisition performance [6].

3.2. Reasons on Promoting System

Cultural integration strategies significantly influenced the staff promotion system. The Japanese traditional ascending system, which prioritizes seniority accumulation, has led to the majority of AQUA's workforce being over 50 years old. This has hindered the advancement of numerous exceptional young employees due to their inadequate qualifications. Throughout the integration process, AQUA acknowledged and honored this promotion system. Based on this understanding, AQUA moderately introduced Haier's innovative ideas, proposing three creative policies: the competitive post mechanism, the "act as minister" system, and the retirement and re-employment policy. In other words, allow staff members who demonstrate exceptional performance to assume the role of ministers, regardless of their level of seniority accumulation. In the meantime, they should employ their predecessors as ministers, not as departmental leaders. Additionally, AQUA implemented a retirement re-employment policy to maintain the mentality of its older employees, allowing them to continue working and receive the same benefits after departing at the age of 60. As a result, in 2019, an ordinary staff member named Santomiko Hayakawa discovered numerous shortcomings in her boss's work and intended to challenge him for the position of minister. Hayakawa Mitsuko's concepts regarding inventory management time resolved the issue of overdue inventory and accelerated inventory turnover after she assumed the position. The extended inventory continued to improve, decreasing by 68% each year, while the company's logistics expense rate increased by 1.7% year-over-year [4].

There are many related studies that also verify these influences. Janna Senou demonstrated that a transparent and fair promotion system can provide equal opportunities for staff and help them better understand organizational culture [7]. Kerr et al. discovered that the design of the reward system reinforced organizational culture [8]. Steady-growth enterprises often apply the hierarchy-based reward system, whereas evolutionary firms typically design the performance-based reward system. In this case, Japanese employees always have a high level of uncertainty avoidance, which means they are more pleased to follow the detailed instructions and orders, leading to an inflexible promotion mechanism and lifetime employment. This traditional system is clearly no longer appropriate in AQUA, as it presents a challenge for new enterprises to swiftly adapt to a dynamic market using this type of promotion mechanism, ultimately leading to an outdated situation.

3.3. Reason on Performance

Acquisition performance is another factor that cultural integration can have an effect on. "Team spirit" dominates Japanese enterprise culture, which promotes "egalitarianism." Japanese staff believe that everyone in the team plays a crucial role in a project's success, which is why they pay bonuses equally. However, Haier suggested that employees should obtain their salaries and bonuses depending on everyone's contribution and degree of responsibility. To facilitate employee acceptance of this policy, AQUA mandated that staff divide their goals into three categories: ensuring objectives, challenging goals, and super profit goals. The more work you've completed, the more pay you'll get. What's more, AQUA also signed a contract with employees to break down the company's goals. If they can reach the agreed-upon indicators, they can get bonuses. These policies were implemented with a small group of staff at first. Half a year later, the company's performance increased by nearly 30%, and the income of the contracted employees increased [4].

Maslow's hierarchy of needs provides an explanation for this effect. After meeting their basic needs, people will pursue self-fulfilling values. In this case, through the innovation of the payment system, employees consider reaching the planned goals as the pursuit of self-fulfillment, making continuous efforts to verify their personal values. Consequently, the company's performance has greatly improved in a short period of time. Florian Bauer and Kurt Matzler revealed that cultural fit can benefit cross-border mergers and acquisitions but hinder the speed and degree of integration [9]. Moreover, these authors continued to deeply investigate this area and discovered that there is a mediating relationship between national cultural differences and integration-innovation performance after three years [10].

4. Suggestions

4.1. Suggestion on Organizational Structure

In the Internet era, the phenomenon of digital transformation (DT) makes market information transparent and symmetrical, requiring zero distance between production services and customers. Traditional multi-level organizations tend to slow down their reaction speed to the market, making it challenging for companies with multiple levels to adapt to changing customer demands. Additionally, products manufactured with lagging market information are unlikely to reach most markets. Under the influence of digital transformation, this paper recommends that today's enterprises need a more flexible organizational structure. One key recommendation is that cross-border mergers should focus on the process of structural change, rather than implementing it all at once. Acquiring firms should combine their original culture and values with innovative measures step by step, giving employees enough room to adapt.

Hanelt and colleagues conducted an investigation into 279 articles and discovered that digital transformation has transformed organizational structures into flexible structures that facilitate continuous adaptation [11]. The malleable organizational designs that are brought about by DT build on digital technologies and agile structures to adapt rapidly to environmental opportunities and threats [11]. This also indicated that a flexible structure is an inevitable change to meet market demands in the future, while digital technologies could play a beneficial auxiliary role.

4.2. Suggestion on Turnover Rate

Cross-border mergers are difficult, but the most difficult aspect always comes after the acquisition: the adjustment measures. This study proposes that focusing more on employees for integration during the adjustment period prioritizes employee satisfaction when acquiring organizations attempt to apply new rules. Cross-border mergers in the home appliance market gained popularity in 2010. In recent decades, major domestic appliance industry titans, including Midea Group, Hisense Group, and Gree Electric Appliances, have bought international enterprises to grow the market and develop technology. Unquestionably, these acquisitions have made significant contributions to organizations' global growth. However, high turnover rates continue to be a source of concern. In circumstances where acquirers lack appropriate strategies to keep their key people, core technology, and resources and face the danger of competitor acquisition, lowering turnover rates and increasing employee satisfaction post-acquisition emerge as the most valued components of the venture. During the cultural integration process, acquired enterprises must adhere to their original culture and values. Using this as a foundation, make progressive adjustments and introduce new concepts.

TCL Multimedia acquired Thomson of France, the world's fourth-largest supplier of audio-visual consumer electronics, in 2003. However, this action didn't produce the forecasted results. Two years later, in Europe, Thomson-branded color TV market share fell dramatically. By the first half of 2006, China's TCL Multimedia had lost \$205 million. The cultural differences between the two enterprises led to numerous conflicts during the business process, significantly reducing employee satisfaction in the new enterprise. This, in turn, led to the departure of many core talents, resulting in a significant decline in the new enterprise's business. Obviously, the most essential reason for this failure is the high turnover rate. This case demonstrates the strong correlation between key employee retention, employee satisfaction, and enterprise performance. To avoid losing core staff and resources, acquirers should consider employee concerns while pursuing complete control.

4.3. Suggestion on Compensation System

Third, it is critical to have a compensation system that aligns with the corporate culture and goals in order to provide effective performance incentives. In the past period, due to the fixed organizational structure and unchangeable work, employees' salaries were often associated with post-rank and working hours. However, employers put more emphasis on efficiency and well-being to realize more

profits. This paper recommends separating and detailing the compensation system to motivate staff to challenge themselves and meet the goals.

In fact, many scholars have demonstrated the essential role of compensation in individual performance. For example, Nuray Akter and Md Moazzam Husain investigated the effect of compensation (CN) on job performance (JP) through a questionnaire survey; they indicated that a proper strategy and policy-based compensation system can enhance the job performance of the employees [12]. When organizations offer a compensation system that matches the market situation and goal-setting, employees will try their best to accomplish the best performance [12]. Given this, it is important to focus on designing a fair and incentive-based compensation system and adjust in a timely manner, along with strategy and culture changes.

5. Conclusion

In summary, this article concentrates on the role of cultural integration in cross-border mergers and acquisitions through the case study of Haier AQAU Corporation. This successful cross-border acquisition has reference significance for cultural integration between Japanese and Chinese firms. The analysis focuses on three key aspects: the efficiency of enterprise integration, the promotion of systems, and performance. Notably, this paper incorporates various research studies and relevant theories to confirm the beneficial effects of cultural integration in these areas. Additionally, this article offers recommendations for acquirers based on the various factors analyzed, aimed at reducing the impact of culture shock post-acquisition and averting avoidable damages caused by a lack of awareness of cultural differences. This is an important finding in understanding of cultural integration. This aspect of the research suggests that enterprises should pay more attention to their employees' satisfaction and gradually adopt approaches to blending different cultures based on respect during the adjustment process.

This paper illustrates the importance of cultural integration in cross-border mergers and acquisitions. The study scrutinizes pertinent literature and divides the facilitation of cultural integration into three primary, noteworthy factors. The article fills a research gap in this area by specifically analyzing the innovative strategies Haier AQAU Corporation adopted to address the culture shock resulting from the differences between Japanese and Chinese cultures. The article also holds significant relevance for the cultural integration strategies of Chinese and Japanese enterprises following cross-border mergers in the future.

However, the present study's limitations naturally include three sections. First, there is a subjective impact since these conclusions are all investigated by the authors' personal opinions and assessments. Furthermore, one could argue that the recommendations for cultural integration in acquisitions between Japanese and Chinese enterprises, based solely on a single case, lack comprehensiveness. The practicality of these approaches is questionable. Furthermore, a significant limitation stems from the fact that, since the selected case occurred in 2012, the market and circumstances of these two countries have undergone significant changes, leading to a dearth of research on their current characteristics. These limitations highlight the need for future research to exploit various current representative cases and samples to confirm the validity of conclusions. Future research should focus on developing human resource strategies that foster cultural integration in cross-border acquisitions.

References

- [1] Z.H. Khan, R.R. Nicholson, P. Akhtar, S.W. He, Cross-border mergers and acquisitions of emerging economies' multinational enterprises — The mediating role of socialization integration mechanisms for successful integration, *Human Resource Management Review*, 1053-4822(2021), Volume 31, Issue 3
- [2] F.C. Li, T. Liang, H.L. Zhang, Does economic policy uncertainty affect cross-border M&As? — A data analysis based on Chinese multinational enterprises. *International Review of Financial Analysis*, 1057-5219 (2021), Volume 73

- [3] V.J. Pereira, Y. Temouri, P. Budhwar, S. Tarba, Cross-border acquisition performance of emerging market multinational enterprises: The moderating role of state-ownership and acquisition experience, *Long Range Planning*, 0024-6301, Volume 54, Issue 6, 2021
- [4] Information on: <https://www.haier.com/aqua/>
- [5] J.W. Berry, Acculturation: Living successfully in two cultures, *International Journal of Intercultural Relations*, 0147-1767, (2005), 697-712.
- [6] W.Y. Tarba, S.Y. Reichel, A Model of the Influence of Culture on Integration Approaches and International Mergers and Acquisitions Performance, *International Studies of Management & Organization*, (2011), 9–24.
- [7] Information on: <http://hdl.handle.net/10400.14/45096>
- [8] J. Kerr, J.W. Slocum, Jr.: Managing corporate culture through reward systems. *AMP*, 19, (2005), 130–138
- [9] F. Bauer, K. Matzler, Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. *Management Strategies* (2013)
- [10] F. Bauer, K. Matzler, S. Wolf, M&A and innovation: The role of integration and cultural differences—A central European targets perspective, *International Business Review*, 0969-5931, Volume 25, Issue 1, Part A, 2016.
- [11] A. Hanelt, R. Bohnsack, D. Marz, C.A. Marante, A Systematic Review of the Literature on Digital Transformation: Insights and Implications for Strategy and Organizational Change. *Journal of management studies*, Volume 58, Issue 5, (2021).
- [12] A. Nuray, Husain, Effect of Compensation on Job Performance: An Empirical Study, (2016)