Aggressive Acquirers, Laidback Owners? Organisational dynamics of subsidiary integration in Chinese MNCs

Abstract

Why do Chinese MNCs appear to be ‘aggressive’ in cross-border acquisition (Zeng and Williamson, 2003) yet ‘laidback’ (Liu and Woywode, 2013) in consolidating subsidiaries in developed economies? This paper addresses this question by examining power dynamics underpinning subsidiary integration and by bridging two relatively disconnected streams of literature in international business: subsidiary integration of emerging market MNCs in advanced economies, and the power relations inside MNCs. An exploratory case study is outlined to examine a Chinese MNC’s attempt to consolidate a newly acquired Canadian subsidiary. The findings suggest developing process-based power is critical to subsidiary integration for Chinese MNCs.

Key words

Chinese private firms, emerging market MNCs, international acquisition, power relations, strategic-asset augmentation, subsidiary integration

Introduction

There has been growing interest in understanding the internationalisation of the Chinese MNCs. This is not just because of the scale and growth rate of the Chinese outward FDI, but also because of the distinctive features that make Chinese MNCs seem unique. Some scholars have identified the key factors that trigger international expansion (Buckley, *et al*., 2007; Wei, *et al*., 2015), the strategic choice in the forms and destinations of investment (Child and Rodrigues, 2005), and the impact of international expansion on acquisition of firm-level competitiveness (Luo and Tung, 2007). Some recent studies have also shed light on continued influences of China's cultural and institutional environment over the management practices adopted by Chinese MNCs overseas (Zheng, 2008; Lee, 2009; Cooke, 2012; 2014; Liu and Woywode, 2013; Zhu and Wei, 2014). What remains relatively underdeveloped is putting together the characteristics of Chinese MNCs' internationalisation in order to extend existing theoretical perspectives, which is largely based on MNCs from move developed economies. Examining the post-acquisition integration, this study aims to address this research gap by joining together the process-based approach in theorizing subsidiary management in MNCs with the contextual analysis of Chinese firms' international M&A activities.

A process-based view locates subsidiary integration in the power relations between headquarters and subsidiaries, stressing organisational level dynamics that underpin integration. Subsidiary integration is subject to collaborative and conflicting relations between an MNC's constituent units (Birkinshaw and Ridderstråle, 1999; Kristensen and Zeitlin, 2005; Bouquet and Birkinshaw, 2008); actors giving sense to and making sense of the constituent units' identity as part of the MNC (Clark and Geppert, 2011); and the de-institutionalisation and re-institutionalisation of existing management practices (Ferner and Edwards, 1995; Edwards and Ferner, 2004; Ferner and Temple, 2006; Edwards, *et al.*, 2007;

Ferner, *et al*., 2012). Derived largely from MNCs of developed economies, an underlining assumption is that ownership advantage, such as management expertise, constitutes headquarters' power over reconciling corporate and subsidiary-specific strategies and securing desirable outcomes (Ghoshal and Bartlett, 1990; Luo, 2004; Andersson, *et al*., 2007; Ambos, *et al*., 2010; Becker-Ritterspach and Dörrenbächer, 2011).

For many Chinese MNCs, the lack of ownership advantage is believed to have driven cross-border acquisition to obtain what they lack, namely strategic assets from mature countries (Child and Rodrigues, 2005; Luo and Tung, 2007; Deng, 2009). Observing the volume, diversity and intensity of Chinese MNCs' engagement in acquiring subsidiaries in more developed countries, some have labelled the Chinese MNCs' international expansion as 'aggressive' (Zeng and Williamson, 2003). In contrast, the Chinese MNCs do not seem to have rushed to restructure and consolidate, which has been suggested to be necessary in research on advanced MNCs' successful utilization of asset-seeking acquisitions (Björkman, *et al.*, 2007). The Chinese MNCs are rather 'passive' when it comes to subsidiary integration (Cogman and Tan, 2010; Bouchikhi and Kimberly, 2012; Liu and Woywode, 2013). To understand this contrast, we need to closely examine the organisational process, because it is at this level that reasons for non-integration can be revealed. In order to do this we need to ask a range of questions. How does the lack of parent firm based advantage changes the power dynamics in subsidiary integration? And more importantly, how does Chinese MNCs' approach of exercising power differ from the more established MNCs? Addressing these questions will enrich our understanding of the organisational contingency that affects firms achieving asset augmentation through cross-border M&As.

Building upon studies of power relations in MNCs (Levy, 2008; Becker-Ritterspach and Dörrenbächer, 2011; Ferner, *et al*., 2012), this study develops what I'm calling a *dyadic* approach to examining how Chinese MNCs manage subsidiary integration. Two dimensions of power dynamics are distinguished. One dimension highlights various sources of power. Here, three sources of power are identified: *structure-enabled*, *resource-embedded* and *actor-embodied*. The second dimension illustrates different approaches in the exercise of power: a *deductive* approach and an *infiltrative* approach. A third *eclectic* approach was added to this framework as we engaged with the empirical evidence. Overall, this dyadic framework helps explain why managers perceive some resources to be deployable, how they refer to direct experiences and modify their approach to deal with subsequent power struggles, and, how they filter indirect experiences and relate them to power struggles.

The empirical research is based on a single case study of a Chinese MNC. Research was conducted when the company was in the middle of integrating its newly acquired Canadian subsidiary. We share the view that although power struggles and politics may be on-going and innate features of everyday management of any unit of a MNC, the impact of power on firm-level institutions is likely to be most readily observable in a crisis, critical situation or some other point of fundamental change (Salancik and Pfeffer, 1977). Conflicting national institutions do not necessarily impose direct and immediate pressures on actors at all levels of MNCs, unless a crisis gives rise to the review and change of management practices. We elaborate our arguments by showing the enactment of power in an unprecedented and critical event, where a subsidiary's survival is at stake.

The following sections first discuss some particularities of Chinese MNCs in developed countries. It then elaborates on the theories underpinning power relations in MNCs and develops a framework to show the agency of power as an organisational contingency of subsidiary integration. Attention then moves to the research methodology, especially our rationale for using a single case of a Chinese MNC to demonstrate such dyadic political actions. The fourth section provides detailed discussion on how power is enacted as the Chinese MNC attempts to reshape the management of the newly acquired Canadian subsidiary. The paper concludes by restating the cognitive and social processes of power relations in MNCs and suggests some possible directions for future research.

Literature Review

International acquisition by Chinese MNCs

Thanks to growing research into Chinese MNCs in the past decade, we now have a much richer understanding of the institutional contingencies that influences the motives, strategies and patterns of internationalisation (Deng, 2004; Ramasamy, *et al*., 2012). One key characteristic is that home country institutions are an important 'push factor' for Chinese MNCs to go global. The intra-provincial diversity and regional protectionism within China are believed to have increased the cost of internal expansion and made international expansion a viable alternative for growth (Boisot and Meyer, 2008). Governmental support has been found to be significant for Chinese MNCs to migrate into new territories (Cooke, 2014), although the effect of such support varies between MNCs under different ownership structures (Wei, *et al*., 2014). State support can also be a source of political tension and institutional resistance, which poses significant challenges to management acquired subsidiaries (Chen and Orr, 2009).

China as a less developed economy also means that part of the motivation of Chinese MNCs' internationalisation strategy is acquisition and integration of foreign/new knowledge to 'overcome competitive disadvantages' (Child and Rodrigues, 2005: 390) rather than consolidating home-country corporate advantages (internal to the firm) as OLI (ownership, location and internalization advantages) theory would suggest (Deng, 2004; 2009; 2013; Buckley, et al., 2007; Liu and Buck, 2009). This strategy is particularly relevant to in the acquisition of companies in developed countries. The activeness of Chinese MNCs' international M&A in Europe and the US during recent years is often seen as a way to achieve asset augmentation (Deng, 2009). Building on Matthews's (2006) linkage, leverage and learning (LLL) framework, some argue that being more adapted to drawing on the host-country embedded resources is critical for Chinese MNCs in order to overcome the liabilities associated with the lack of parent-firm specific advantage (Thite, *et al*., 2012).

A third feature arises from the current research is that Chinese MNCs have been found to less active in consolidating the acquired subsidiaries, and particularly those in the more developed countries (Cogman and Tan, 2010; Bouchikhi and Kimberly, 2012; Liu and Woywode, 2013). Some suggest the lack of strategic integration of acquired subsidiaries derives from a country of origin effect: the cultural, institutional and social environment in China being engraved in Chinese firms and carried to the overseas subsidiaries by the managers (Cooke, 2012; 2014; Zhu and Wei, 2014). Others linked Chinese MNCs' knowledge seeking motives with the cultural and institutional difference analysis, to argue that due to managing across multiple institutional spaces Chinese MNCs are able to create constructive management inventions (Govindarajan and Ramamurti, 2011) and develop novel ways to achieve organisational 'synergy' (Liu and Woywode, 2013). What remains underrepresented by this stream of capability-centred strategic research is the question of what happens when Chinese MNCs *do* take steps to consolidate subsidiaries acquired in developed countries. A process-based approach will help delve further into in the way Chinese firms as one example of emerging MNCs build competitiveness, such as managerial skills, to deal with conflicts and resistance when it inevitably appears through the process of subsidiary integration.

Power relations and subsidiary integration

Power relations affect MNCs at different levels and spaces. While a comprehensive review of the conceptualisation of power relations in organisations is beyond the scope of this study, we want to draw attention to the notion of agency, which highlights power as a property of social interaction (van Dijk, 2008). Those engaged in power relations are ‘actors’. The underlying structure, values and norms of a given organisation constrain decisions, choices and actions and are often “beyond the reach of tampering by organisational members” (Hardy, 1996: 8). Nevertheless, actors have the capability to mobilize resources, control organisational processes and contextualize the meanings in order to counter such constraining forces (Lukes, 2005).

In the context of post-acquisition subsidiary integration, agency power is reflected at least two dimensions: power deployment and power development. The following review elaborates power deployment as actors being able to secure and mobilize structurally enabled, resource-embedded and actor-embodied power to influence decision-making and achieve desirable outcomes. At the same time, there is the possibility that actors generate power by tackling the complexity of power relations: recognize power sources, engage with powerful actors and consolidate management practices which emerge from power struggles. In this sense, subsidiary integration is shaped not only by individual “episodes” of power struggles, but also inter-connected episodes of power enactment.

Power deployment in MNCs

Power dynamics in post-acquisition integration is reflected in actors trying to influence decision-making and achieving desirable outcomes (Pfeffer, 1992; Ferner, *et al.*, 2012; Mäkelä, *et al.*, 2013). Existing literature shows that structure, resources and individual attributes all constitute sources of power. Actors’ choice of what power source to tap into in order to influence the direction of post-acquisition restructuring can be viewed as political action. We call this type of political action *power deployment*.

Built on the idea that authoritative power conveys legitimacy to top-down domination (Morgan, 1996), structuralist analysis depicts power relations in MNCs as the struggle between two competing aims: headquarters dominance and subsidiary autonomy. A typical structuralist view suggests that a subsidiary's power (or autonomy) derives from headquarters' delegation. Subsidiaries are often seen as functional spin-offs of MNCs and play roles that are designated to them by HQ (Birkinshaw and Hood, 1998). From a structuralist perspective, the agency of power entails an authoritative or legitimated entitlement. Power deployment is made through actors' political bargaining, lobbying and/or sense-making (Dörrenbächer and Gammelgaard, 2011).

In contrast to structuralist theory, resource-dependence perspectives propose that power relations in MNCs are determined by the interdependent relations between agency, resources and power (Pfeffer and Salancik, 2003). Headquarters and subsidiary have access to different institutionally embedded resources, which form their source of power (Ferner, *et al.*, 2012). However, we must not see resource as an entitlement. While the subsidiary has geographical propinquity to resources embedded in host countries, it should not be assumed that subsidiary actors can *automatically* deploy these resources. Likewise, headquarters may not always be the agents of globally distributable resources (such as technological know-how and best management practices), especially in the case of emerging market MNCs with relatively limited knowledge-based expertise.

Finally, power deployment is subject to some attributes embodied in actors themselves. The existing literature explains the embodied nature of power in the conceptualisation of actors as interest-driven and engaged in political struggles to shape firm-level institutions (Birkinshaw and Ridderstråle, 1999; Kristensen and Zeitlin, 2005; Edwards, *et al.*, 2007; Ferner, *et al.*, 2012). Such micro-level analysis often focuses on actors' interests with regard to their assignments, reflected in managers engaging in purposive actions, exerting formal and informal control, and dealing with conflicts to realize corporate, group and individual goals. However, embodied power also derives from subsidiary managers' knowledge, experience and skills, which all illustrate "the power of knowing" (Andersson, *et al.*, 2007). In particular, when it comes to the power of assigning, interpreting and revamping meanings of management policies, language skills (Vaara, *et al.*, 2005), social skills (Clark and Geppert, 2011) and emotional skills (Shipper, *et al.*, 2003) can all be critical to power deployment. These aspects of embodied power are particularly relevant in firms acquired through consolidation. This is because managers having to handle conflicting expectations, interests and organisational norms empowers MNCs both in terms of the number of acquisition acts and post-acquisition integration and institutionalisation of different management policies and practices (Dikova and Sahibb, 2013).

Power deployment is a complex social process, which connects the structure of MNCs, resources and powerful actors into subsidiary integration processes. In addition, different approaches to the exercise of power will also influence subsidiary integration. We refer this type of political actions as *power development.*

Power development in MNCs

Power relations in MNCs are embedded in a discursive, reflective and interactive cycle (Nonaka and Takeuchi, 1995). Managers may choose to handle conflicting expectations, interests and organisational norms in different ways, which have a direct impact on post-acquisition restructuring (Dikova and Sahibb, 2013). In stressing the developmental dimension of power relations, we want to capture the subjectivity of power relations, which is cognitively processed by actors, the relativity of power relations, which is mitigated by the social interaction between actors, and the latent aspect of power relations, which are activated by actors.

We can broadly distinguish two approaches to action development within power relations in MNCs: deductive and infiltrative. A *deductive* approach in power development means that actors tackle power struggles directly, by imposing new organisational rules, management routines or replacing key personnel. To integrate an acquired subsidiary into the MNC, managers will have to assess the feasibility of policies, weigh the cost and benefits, negotiate action to be taken, and gather feedback to affirm, modify or rectify the actions taken – a point notably illustrated by research of knowledge transfer in MNCs (Beechler, *et al.*, 1998; Hong, *et al.*, 2006). With information accessed and processed, actors will have to understand and sometimes infer the power structure, resource base and other actors' political agenda. This approach entails cognitive sense-making of complex power relations in MNCs (Weick, 1995).

An *infiltrative* approach means actors connect and mobilize those who have developed sophisticated methods to reshape power structures, build a resource base or negotiate with other powerful actors. Actors can engage in power struggles without the cognitive sophistication required in a deductive approach, by either replicating or soliciting those who do possess such assets (Boisot and Child, 1999). Sometimes, taking an infiltrative approach means actors bequeathing access to someone outside the firm to command, which allows them to advance a desirable agenda without direct involvement in political actions (Child and Rodrigues, 2011). However, taking this approach may also risk losing power for some actors, especially when the actors engaged in power struggles develop competing interests as the process of post-acquisition restructuring continues. In order to advance an agenda without being dominated by others, actors will have to expand, renew and replace those they align with. This approach exercises a relational reformation of power relations in MNCs. This dyadic framework is illustrated in a three-by-two matrix (see Figure 1 below).

[Insert Figure 1 about here]

On the vertical axis, we have three elements of power deployment, which means actors drawing on structure-enabled, resource-embedded, or actor-embodied power. On the horizontal axis, we show two approaches (deductive and infiltrative) of power development. This suggests different ways that actors may choose to exert power enabled by structures, embedded in resources or embodied in actors.

Combing the institutional analysis with power dynamic analysis, this study moves away from "capabilities" based understanding of subsidiary integration, which is widely adopted by existing studies. Instead, a process-based perspective is developed to show the moderating effect that organisational dynamics exert between the specificities in Chinese MNCs' international acquisition and post-acquisition integration.

Research design and methodology

Given that our aim is to enrich the understanding of socio-political engagement of Chinese MNCs with the institutional environments in an established economy, the research is based on a single case study. A single case study has the strength of revealing in-depth, detailed and complex social phenomena (Eisenhardt and Graebner, 2007), such as power relations embedded in the post-acquisition integration process. Nevertheless, case selection is critical for the construction of theoretical implications (Yin, 1994). We identified a Chinese firm, which allowed us access to investigate transitions after their acquisition of a Canadian subsidiary. Nonetheless, the significance of this particular case also lies in its own account:

The significance of a single case study

The Chinese parent firm of our case study is a private firm seeking to strengthen their competitive advantage through international acquisitions. Their international expansion is explorative, gradual and targeted for incremental growth — which has been called typical for

Chinese private firms (Wei, *et al.*, 2015). My case firm acquired 18% ownership of the subsidiary in 2009, then a further 30% in 2010, before full acquisition in 2012. The Chinese parent firm is one of the leading chemical fibre manufacturers in China by scale of production. But most importantly, this single case was in the middle of restructuring, which fulfils the *situational setting* required in order to address our research question. Like other emerging MNCs, the parent firm first adopted a "preservation" approach (Bouchikhi and Kimberly, 2012) for managing the newly acquired subsidiary. After the acquisition, they announced that the subsidiary would maintain its operational independence and management autonomy. The parent firm was profiting from securing a stable supply of the natural raw material needed to enhance the quality of chemical fibre manufactured in China. The subsidiary benefited from the Chinese investment, which stopped the plant from being wound down. However, this 'honeymoon' period ended in 2013, when the price on subsidiary's main product collapsed on international markets. Managers were then confronted with major internal and external problems, all of which existed at the start of the acquisition, but which the high price of cellulose had concealed. Collapse in commodity prices triggered the parent firms' move towards gaining more control over subsidiary management.

The acquired subsidiary offers a distinctive *territorial setting* for studying post-acquisition power struggles. The subsidiary is a "community firm", which has formed strong ties with a number of key host country institutions. The majority of the 400 employees were resident in the local community and family members sometimes work on the same site. The majority of the workforce were trade union members. Production machinery, energy, materials and distribution were contracted with local suppliers, who often had direct or indirect links with the management and employees. Close links with the local community is not uncommon in situations where industry is built around natural resources. Such a case allows us to pin down the role played through the social agency of institutional resistance towards the increased parent company power.

Data Collection

The data collected included both primary and secondary sources. Secondary data (e.g. from company websites, industry reports, union publications, newspaper and magazine publications, and academic publications) were gathered to understand the country-, industry-, market- and firm-specific context. Interviews were conducted with selected members of the management team from both the headquarters and subsidiaries, who were able to offer insights on the critical events. Semi-structured open-ended interview questions covered five key issues regarding the context and process of power relations: the organisation structure; the business environment and firm's external relations; managers' background and experiences; key events and the organisational development process as well as conflicts within and outside the subsidiary (see Appendix). The interviews lasted between 40 to 120 minutes. Notes were taken during the interviews and follow-up calls were made for the purpose of clarification. All interviews were conducted in the interviewees' first language.

Data Analysis

Data analysis is neither strictly deductive nor inductive, which is found effective when researchers seek to develop theory by conducting explorative qualitative research (O'Toole and Grey, 2015). We started with a deductive approach by referring to existing theories and created a framework that allows us to perform a critical thematic content analysis (Fairclough, 2003; Braun and Clarke, 2006). We then tried to fit our data into the 6 pre-coded boxes in three-by-two matrix (Figure 1). For example, when we read managers referring to being a leading firm in the industry sector endorsing the adoption of certain management practices, we labelled this "a deductive approach to exercise structure-enabled power". Data obtained from all sources were analysed using the same technique. Although the codes were predominantly based on existing theories, emerging themes and patterns were also noted. For example, a new code “eclectic approach” emerged as we examined the power struggle between the parent firm and the local unions. We then went back to the data and writing-up was based on compiling and comparing themes to establish relationships between sources of power, approaches in exercising power and the outcomes of power struggles.

Findings

As explained earlier, the subsidiary profit margin was seriously squeezed due to collapsing commodity price internationally from late 2012. Product price collapsed by two thirds from its peak. In fact, the market price fell so much below the cost of production that the Chinese parent firm started purchasing externally to compensate for the loss induced by keeping the mill open and running. This situation dramatically contradicts with the original rationale of acquisition, which was to realize cost efficiency through internalisation. At this point, the parent firm switched off the ‘light-touch’ mode (Liu & Woywode, 2013) of subsidiary management and started to consolidate the subsidiary. Enhancing operational efficiency was brought to the top of management’s agenda. This was expressed through a series of changes that the parent firm planned to make, including replacing existing production equipment, changing raw material and implementing new employment terms. Management agreed that the time had come to bring substantial changes to the subsidiary in order to control production costs and improve operational efficiency.

The deductive approach of imposing changes to energy and production materials failed. The subsidiary’s machinery dated from the 1970s, when the oil price was much lower. Periodical hikes in oil price had significantly affected the subsidiary’s profitability, yet none of the previous owners of the subsidiary had invested in switching fuel due to the high fixed costs required to replace the whole production line. The Chinese owner was keen to 'modernize' existing oil-burning machinery with those powered by gas, a cheaper and more sustainable energy. While the idea of machinery renewal was generally welcomed by the locals, the proposal of installing machines imported from China was vetoed by the locals through various channels.

An alliance of resistance was formed between the union and local spare parts suppliers and sub-contractors who had been providing maintenance services. The opposition towards imported production equipment was grounded in economic concerns: using imported machinery could lead to existing parts suppliers and sub-contractors being replaced by cheaper and more flexible Chinese firms outside the community town. Because these firms were connected with the subsidiary not just by business relations but also through family members working in the subsidiary, the concerns of suppliers were often voiced by employees. The local union also articulated concerns over the plan of importing production equipment, but for a different reason. They cited health and safety concerns and demanded that all imported equipment also had to meet Canadian safety and quality standards. On the basis of Canadian legislation, the union argued that all machinery must be both inspected and installed by Canadian certified engineers. The firm was not able to justify the cost-effectiveness of importing machinery made in China, and therefore bought local equipment.

In a similar manner, the parent firms' attempt to replace some production material also stalled. The subsidiary had used nature material, a type of tree which takes more than 60 years to mature. An alternative material is wood chips. While it was a common industry practice to use residual wood chips from sawmills as a source of fibre, the products was proved to less strong or durable. Internally, the local engineering, production and technical team were extremely reluctant to use wood chips. The reason being product quality would be compromized and the reputation of the subsidiary would be tarnished. Outside the subsidiary, the neighbour community raised health and safety concerns. Although wood chips wouldn't involve much cost to purchase, transportation and storage could potentially cost much more. Wood chips needed to be recycled or disposed of properly, because piling of wood chips could cause hazards. There was an explosion in a nearby town some years before and the local community was rather disapproving of the mill starting to store wood chips near their homes. Local authority also had reservations over the plan. The local authority issued licenses to farming and logging. Given the fact that towns were built around single factories, the subsidiary was the only buyer of locally produced logs. Again, the economic impact of the switch was expressed through the local authority. By the time the study was completed, the parent firm was not able to change the supply of the raw material.

The parent firm's intension to reshape the employment terms encountered strong resistance from two employee representative bodies: the industrial union and the local union. The Chinese parent firm indicated that current employees should sign new contracts with the change of the company's name. The implication was that all employment contracts would be terminated and tenure and seniority at the subsidiary would be re-set. This change would affect the benefit schemes associated with tenure, including existing pension plans. The unions agreed to renegotiate a new collective contract, but wanted employees' "seniority rights" to be carried over to maintain the tenure-based pay scheme in the new company. Citing the previous owner's financial scandal and its detrimental impact on employees' rights, the union insisted that "seniority rights" should be reinstated in the contract. Negotiations were halted a few times. Neither party was able to agree on a new 5-year collective contract. An Interim agreement was then put in place and was subject to review in 2 years' time. Here, an elective approach was adopted to assuage the union's power.

In face of the difficulty in advancing the proposed changes at the subsidiary, the Chinese side of management team found themselves weighing the options to exercise power in subsidiary management in order to push the agenda of 'enhancing operational and management efficiency'. The parent firm had to manoeuvre the repository of power, and often in a discursive manner (see a summary in Table 1).

[Insert Table 1 about here]

The importance of interaction between power deployment and power development needs to be highlighted. The source of power, which actors are able to tap into, often informs the choice of their approach to exercise power. For the parent firm, power deployment is also influenced by the power exercised by their local counterparts and the approach these counter parts chose in the exercise of their power. Such power dynamics constituted the contingent organisational environment, where the subsidiary consolidation took place.

[Insert Figure 2 about here]

Both power deployment and development were informed by the particularities of the firms' strategic incentives, and also affected subsidiary consolidation. This moderation effect is illustrated in Figure 2 above.

Discussions

Power deployment

One of our findings is that ownership does not necessarily delineate structural power in the context of emerging market MNCs. The parent firm was unable to impose new organisational routines, management policies or administrative rules by asserting ownership authority. An example was the difficulty in the negotiation for new collective contract described above. This is in part because the locals, including the managers, union leaders and the other members of the community were familiar to dealing with ownership changes and fending off pressures for implementing new management practices. A recent battle had been against the previous owner, who acquired the subsidiary in 2007 and intended to 'slim down' the HR outlay by delaying and defaulting payment to the employees' pension fund. The union took the parent firm to court and won the case, which in effect, led to the sudden exit of the previous owner and left the subsidiary on the brink of closure.

Control of a key resource, such as capital and reinvestment, did not guarantee parent firm dominance in the subsidiary management either. The parent firm was also selective when it came to drawing on home country resources. This is because, on the one hand, the parent firms' initial motive of internationalisation was linked to home country market expansion (Peng, 2005). The parent firm reported that the proportion of products exported to China compared to the rest of the world changed from 20/80 to 70/30 after the acquisition. This strengthened a form of transactional headquarter-subsidiary relations. On the other hand, the parent firm deliberately played down the 'country-specific advantage' such as the connection to the Chinese state after the acquisition. It was not that the parent firm lacked capability in mobilising home country resources. When the Chinese government launched anti-dumping measures against imported fibre, the parent firm had shown strong signs of home country resource-embedded power: the subsidiary was one of only two firms that were exempted from anti-dumping duty. Rather, the Chinese firm inclined to mobilize resources primarily built locally. For instance, they joined the fibre industry association, who took a conciliatory role by sharing sector-wide best practices of storing sawdust and woodchip with the local authority. This observation echoes with their asset-seeking strategy, which drives them to focus on exploring host-country embedded resources in the post-acquisition phase (Thite, *et al.*, 2012).

Chinese MNCs' intension to seek long term collaboration with international partners (Hitt, *et al.*, 2004) is also found to affect the deployment of power. The parent firm intended to establish themselves as 'a long-term partner' and chose to distance themselves from 'an owner looking for a short-term fix'. They therefore refrained from deploying power sources embedded in international institutions. For example, they decided not to use a professional consultant company to force through what would be the prescribed changes based on the notion of 'a global model' of subsidiary integration, which is frequently observed in established MNCs (Gomes, *et al.*, 2013) and sometimes emerging MNCs (Aguzzoli and Geary, 2014).

Here, we can see that resource-embedded power is latent, and whether, when and how to mobilize it was to a large extend a strategic choice (Child, 1997). In broad strategy terms, the acquisition was to secure the natural resources needed for fibre manufacturing in China. In this sense, subsidiary restructuring and integration was to pave the way for potential reverse transfer of subsidiary advantage (Rugman and Verbeke, 2001). However, subsidiary integration was also designated to open up routes to explore new investment and collaboration opportunities. In the owner's words, their international operation was 'experimental' and the subsidiary was a 'forerunner for many more future international expansions to come'. Power relations between headquarters and subsidiaries were not only shaped by the two sides' access to and capabilities of power deployment. But also, the perspective of procuring resources beyond subsidiary as a stepping stone for future expansion (Morck, *et al.*, 2008) endorsed the parent firms' inclination to seek to enhance their influence by gaining resource-embedded power locally.

A parent firms' administrative authority is normally delivered through expatriates, who are considered the key agent of headquarters power (Harzing, 1999). In our case, however, expatriation was more symbolic than a manifestation the reshuffling in the existing power structure. Only the CEO can be classed as an "expatriate" in the conventional HR sense: a manager employed by and working at the parent firm for an extended period of time before he was despatched to the subsidiary on a fixed term basis. Otherwise, direct expatriation was less commonly used. Instead, the parent firm chose a broad range of 'locals' to form the management team. Some managers had worked at the subsidiary their entire career, some were headhunted from the US, some held long-term external positions, some sat on governmental or industrial advisory bodies, and some had their own professional business.

[Insert Table 2 about here]

The reliance on the locals for the acquisition and transfer of technological and management knowledge echoes other research on MNCs from emerging economies moving to developed economies (Piscitello, *et al*., 2016). Power embodied in the host country employees meant that the parent firm had to adopt a 'local-internationals' oriented personnel policy.

Power Development

Lack of parent-specific advantage also restrained the use of a deductive approach in exercising power. Strengthening the subsidiary's relations with the fuel suppliers is an example. Oil and gas were well-known and viable alternative energy sources in the sector. It is commonly understood that fluctuation in oil price is beyond the control of individual firms, but a strong link with local gas suppliers can cushion the impact of such fluctuation. Within the industry context, acquiring an up-stream gas supplier made sense to stabilize energy supply and control fuel costs. In fact, the parent firm had gained a leading position in the industry due to its successful identification, acquisition and integration of a number of up-stream suppliers in China. Managers extracted these experiences and applied them to the subsidiary. As awareness of sector-wide norms was recognized by the locals, the deductive approach in incorporating fuel supplier encountered the least institutional resistance. However, the effectiveness of the deductive approach had its limits. Due to the lack of established international managerial expertise, replicating a deductive approach in claiming structural power over the local managers and the unions had proved to be less feasible.

Challenges to headquarters' structural, resource-based and embodied power over subsidiary integration has also given rise to the parent firm adopting more discursive approaches in exercising power. The infiltrative approach was most evident in the event of creating a shadow structure to break through the existing management structure and advance the parent firms' influence over subsidiary management. As mentioned earlier, a holding company was set up to act as a financing entity. New positions created in the holding company were often senior roles, which overlooked a position (or several positions) in the subsidiary. To the subsidiary managers, such a shadow structure conveyed a sense of secondary power (Lukes, 2005), although staff in the holding company were seldom directly involved in subsidiary management. To the outsiders, the shadow structure increased complexity and uncertainty over 'who was in charge'. Some long-serving local managers felt their position besieged and their authority undermined. Some decided to leave and the vacancies were then often quickly filled by managers from the holding company. By the time this study was completed, more than half of the internally promoted top managers had been replaced by those recruited through the holding company.

An emergent eclectic approach was found in the parent firms' attempt to alleviate the unions' power. Management-union negotiation was structured in the forestry and chemical industry and was protected by host country legislation. The industrial union and local (or regional) union were both strong in negotiating and settling employment contracts in the chemical fibre sector in Canada (Sweeney and Holmes, 2012). Apart from a few top managers and employees recruited though the holding company, the majority of the workforce were union members. Employment contracts were negotiated through the unions on a regular cycle, and covered issues such as pay, tenure, pension, welfare benefits, vacation and contracted-work. Removing union members (an infiltrative approach) would not be possible, at least in the foreseeable future. A deductive approach did not have desirable outcomes either. The parent firm had limited channels for employee representation and employee voice back home. While some Chinese managers had dealt with disruption and employee collective action, the tactics used at home would be illegitimate under the host country legal framework and social institutions. Having had a minority ownership in the subsidiary, some managers had experienced the previous rounds of negotiations. They were aware of the strength of the local unions and that collective employment contract negotiations had slowed down decision making processes in the past. So, before the full acquisition, the Chinese managers studied employment laws, local employment relations, and the terms of the existing employment contract carefully. However, the scale and overlapping nature of issues and time taken in management negotiations with both the industrial union and local union was still considered to be “unexpected” and “unthinkable” by the Chinese side. The parent firm therefore moved towards a more eclectic approach.

The eclectic approach can be evidenced in management-union negotiations. On the one hand, management agreed to some union demands, which meant some substantial compromises were made, especially on the issue of employee tenure. But this apparent union triumph was overshadowed by shortening the collective contract period from 5 to 2 years. This had the consequences of undermining the unions’ effectiveness in securing pay stability and gave management some leeway to rethink their tactics. The firm started to cultivate a new generation of employees, both at the top managerial level and the entry level. As discussed earlier, more ‘outsiders’ were introduced to the top management team. At the entry level, a group of young university graduates from chemical and forestry engineering backgrounds was recruited into the company on internship programmes, which was something not included in the collective contract. Their jobs were not clearly defined. One interviewee described the ambiguity of his responsibilities:

> *I was recruited as a product development manager in March [2013], but so far I haven't been involved in R&D or engineering projects. I was like a "comprehensive" employee in the office [of the holding company]: I was an office clerk, accountant, driver, bodyguard, everything. Sometimes I was sent to the Mill to learn about production, but people there seemed to be confused about my role. I finally got it that I had to find my own project if I wanted to carry on working in this company. It was difficult to start with, but I think I've got it now. I am really happy to be able to start doing something related to my major by putting together a new project.*

The union contract prevented local employees from doing unpaid overtime, job-relocation without appropriate compensation, and being on-call during weekends. However, because this new group of young graduates were not part of the collective union contract, they could work this way. They were less experienced, without professional engineering titles and paid a much lower salary than the established technical engineers. The majority of these young graduates were Canadian Chinese. They were bilingual or trilingual, which helped facilitate communication between the parent firm and the subsidiary. Besides language proficiency, non-unionism and working outside of company norms, the young graduates were also characterized as being "more task oriented than firm oriented". In the short term, the parent firm was able to by-pass the unions and implement some new terms of employment within this segment of the workforce. In the longer term, this group of workers were expected to become the core or "a new cadre" of engineers, technical and managers. The parent firm would expect this group to be less engaged with the unions, and weaken the unions' role in subsidiary employment relations.

This developmental dimension of power relations can be linked to Chinese MNCs' intension to improve organisational learning capacity through acquiring subsidiaries in developed countries (Mathews, 2006). This *eclectic* approach evolved as actors learn from the set-backs from engaging in power struggles and modified their approach. As actors internalized power relations and gained experience and solutions through power struggles, one can say that the eclectic approach was *ad-hoc* or programmatic in nature. However, it is also possible that actors developed a sense of political 'ambidexterity' (Luo and Rui, 2009) as they accumulated experience through power struggles and increased their sophistication in using both the deductive and infiltrative approaches to manage power relations. It might be the case that an eclectic approach was particularly relevant to actors in MNCs from emerging economies, such as China, because of their lack of a standardized approach for dealing with overseas subsidiary integration (Zhu and Wei, 2014) and the consequent tendency to incorporate heterogeneous management tactics through the process of "learning by doing" as they internationalize (Mathews, 2006).

Dyadic political action

We observed power struggles as structured in headquarter-subsidiary relations, management-labour relations and firm-institutions relations. Access to resources was found to be critical to subsidiary integration, which supports previous research based on power capability analysis. Most importantly, actors developed and deployed power through the process of interaction, and were not restricted to those within the organisation. The interactions often informed the approach taken by actors in terms of their choice of how to handle future power struggles. At a wider level, power relations were recognized and entailed the process through which management practices were shaped.

Power deployment and power development are not necessarily all initiated by actors within the firm. The ‘environment’ is not simply a source of power. Actors outside the company influence the firm in order to re-shape parent-subsidiary power relations. Located in a remote community, the embedded pressure of the local community became a close knit and strong restraining force enacted by multiple agencies -- an observation echoed in the capital intensive resource extraction sectors in other country contexts (Lee, 2009). Agents of local institutions sought to actively engage in the everyday management decisions, including those related to production materials, energy supply and machinery.

The findings here entail the contestation, deconstruction and re-working of subsidiary integration, which created a moderation effect between the characteristics of Chinese MNCs and the results of subsidiary consolidation. As part of the restructuring, the parent firm wanted to push forward policies to address operational efficiency at the subsidies. The attempt to revoke the tenure-based pay scheme, union-avoidance and casualization of technical and engineering jobs all seemed to indicate a more neo-liberal approach in management, which reflected the market-oriented reforms that have defined Chinese society over the past 30 years. Subsidiary actors, on the other hand, were familiar with changes of ownership, shifts in management policies, and the general trend towards greater organisational decentralisation and considerable discretion at work. These were also elements of a neo-liberal approach in management. This scenario reminds us that when it comes to subsidiary integration, the so called ‘home country practices’, ‘host country practice’ and ‘global best practices’ were extracted from the social reality experienced by actors, and they often ‘re-learn’ some practices through social interaction with their counterparts. Such clashes would give rise to new ways in engaging with power relations, such as the eclectic approach of power development observed in our case.

Concluding remarks and suggestions for future research

This paper brings together two relatively separate research agendas: strategic analysis of the internationalisation of emerging market MNCs' and a process-based view of subsidiary integration. It unpacks the social-political process of subsidiary integration. Focusing on collective actions and social interactions, the paper argues that power struggles in MNCs are characterized by both how actors mobilize the source of power and the way they enact power. Actors draw on power sources perceived to be accessible and deployable and purposively exert prerogatives. The choice of how to exercise power is subject to actors' cognitive engagement with the structures defining regional, national and international institutions, with tangible and nontangible resources as well as with other actors' experience and approach to deal with power relations. At the same time, the choice of how to exercise power is also informed by the physical involvement in deducting, infiltrating or moderating the power enabled by structure, embedded in resources and embodied in actors. Such power dynamics forms the organisational context of subsidiary integration and affects its outcomes.

Specifically in the case of Chinese MNCs, existing literature posits that international acquisitions offer the potential for addressing some competitive weaknesses and compensating their latecomer disadvantages (Luo and Tung, 2007). Acquiring a subsidiary, however, is only the first step. The post-acquisition integration process is critical for the Chinese MNCs to access the host country market, obtain technological expertise and develop management practices. Highlighting the organisational dynamics, the study shows how the parent firms' attempt to restructure the subsidiary according to the corporate global strategy was confronted by strong challenges of institutional resistance embodied in a number of local actors. Lacking parent firm-based advantages, and particularly sophisticated practices to manage international subsidiaries, headquarter power over subsidiary was challenged and undermined. Undertaking subsidiary integration did allow management to develop. And new practices, such as an eclectic approach in exercising power, emerged. Consolidation was pushed through as the parent firm developed process-based power.

The findings highlight the importance of managers being learning agents in acquiring 'experiential' knowledge, which is critical to integrating international subsidiaries (Barkema and Vermeulen, 1998). Such learning agents would be relevant to other emerging market MNCs, aiming to build global competitiveness by merger and acquisition of firms from more developed countries. We observed managers taking different approaches to draw on resources embedded in regional, national and international spaces. Different structural forces were also redirected by managers once they were informed by and internalized the rules, protocols and norms advocated by agents of regional, national and international institutions. These findings all suggest the binary global vs. local divide in understanding power relations needs further refinement to capture the dynamics involved in the power relations between MNCs and institutional spaces – an observation that resonates with research conducted in MNCs from other emerging economies (Aguzzoli and Geary, 2014).

This paper is based on a single case study, exploring the post-acquisition consolidation in a Canadian subsidiary of a Chinese MNC. In the future, comparative research involving inter-sector, cross-country and multiple data is recommended to test the moderation effect of power dynamics. It will also be worthwhile to integrate theoretical frameworks such as reverse knowledge transfer to examine how subsidiary integration may affect competiveness building at the parent firms.

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Figure 1. A Conceptual Framework of Dyadic Political Action

Dyadic political action		Power Development	
		Deductive approach	Infiltrative approach
Power Deployment	Structure-enabled	Box 1	Box 2
	Resource-embedded	Box 3	Box 4
	Actor-embodied	Box 5	Box 6

Figure 2. Specificities of Chinese MNCs, Power Dynamics, and Subsidiary Integration

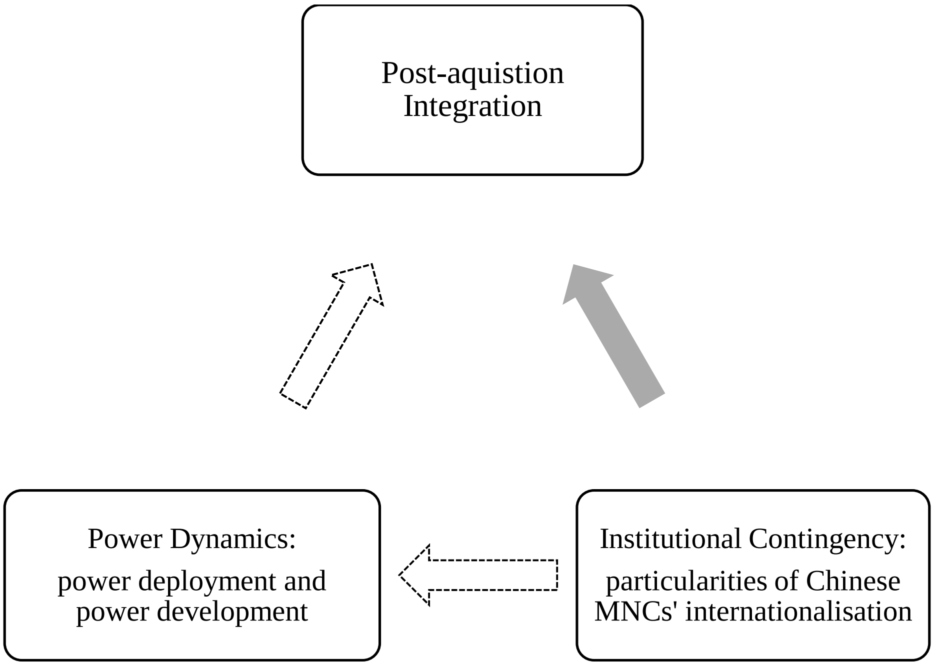

Table 1 A Dyadic Political Action in subsidiary integration

	Deductive approach	Infiltrative approach	Eclectic approach
Structure-enabled power	Theme: recognising and understanding similarities and differences in power structures, and utilising these structures, such as sector, economic or legal frameworks, to advance a desirable agenda. Examples: “Partially acquiring a gas company will be the way forward. The [profit] margin of chemical fibre sector is so tight that it just makes sense to buy our upstream suppliers to control the production cost.” (source: interview)	Theme: by-passing or circumventing existing structures by creating a new one. Examples: parent company sets up a holding company and creates a shadow executive team, which forces the majority to the top executive in the subsidiary to resign (source: analysis of company data and interviews)	Theme: alleviating the influence or effectiveness of a counter-part in a power struggle. Examples: in the event of union negotiations for the collective employment contract, the parent agreed on most issues but shortened the duration of contract (analysis of company and union report)
Resource-embedded power	Theme: understanding the critical resources needed for operation and management. Mobilising resources to advance a pre-set agenda. Example: “50% of last years’ profits were reinvested in upgrading our equipment and expanding our production capacity…This is part of our commitment for the long-term and sustainable growth of this subsidiary” (source: interview notes)	Theme: drawing on resources beyond the control of the firm by entry into networks, with complementary or supplementary resources. Example: “We will have to rely on the saw mill to persuade the local authority that transportation of the saw dust is safe. They have the technical knowledge to do that.” (source: interview)	Theme: activating and de-activing latent resources Example: resourcefulness and connections with the home country government being played down. (source: extracted from interview with the firm owner)
Actor-embodied power	Theme: understanding the interests, agenda, skills and experiences of other powerful actors. Example: employing ‘local internationals’ to form the top management team (e.g. managers who were educated and had worked in the US and Canada before their appointment at the subsidiary). (Source: company documentation)	Theme: allying with actors in key positions to balance interests, agenda and experiences. Example: Employing senior managers with current or previous employment at government bodies, negotiations between whom often informed management at the subsidiary (source: notes from secondary data)	Theme: leaving ambiguity in employment terms with individuals, who have divergent interests, career expectations, and skill profile. Example: employing a new generation of workers, mostly ethnic Chinese graduates. (source: interview)

Table 2 Employment Relations of the Executive Team in HFP Mill (using pseudonyms)

Name	Position	Nationality	Employment Contract with	Joining Date	Other employment and past experience
Xian, Anthony	CEO	Chinese	holding company	July 2012	Employed directly by parent firm, chemical engineering background; former director of China's Ministry of Light Industry
Stevenson, Richard	MD	Canadian	subsidiary	February 1985	N/A, internally promoted ; worked in HFP Mill most of his working life; experienced several ownership changes with HFP Mill
Sun, Benjamin	CFO	U.S citizen	holding company	January 2013	N/A, Director of Finance in CTE Group Worked as finance directors in both China and US
Neumann, Christoph	VP, Logistics	Canadian	subsidiary	September 2011	N/A, recruited just after CTE became a minor shareholder Varied experience in forestry and transportation
Wilson, Denial	VP, Finance	Canadian	holding company	June 2007	Recruited at the time when the Union and pervious owner were in a major confrontation. Extensive working experience at firms in the local community
Li, Edward	PR	Chinese	subsidiary	January 2010	Senior Director of Chemical Fibre Industry Association, China
Lynch, Frank	Purchase	Canadian	subsidiary	July 2009	N/A, recruited just after CTE became a minor shareholder Varied experience in timber and logging industry
Zhou, Gary	Marketing	Canadian	holding company	January 2013	Recruited after the full acquisition, holds
Wu, Henry	R&D	U. S. citizen	subsidiary	February 2012	N/A, recruited after the full acquisition; holds a degree in engraining; studied and worked in a research institute in the US before joining HFP Mill; retains a part-time research position
Morgan, Ian	Government Affairs	Canadian	holding company	November 2012	An independent lawyer and holds advisor positions in a number of organisations

Appendix: Interview Schedule

Section A. Internationalisation Strategy

1. What is the history of the parent firm?
2. What is the corporate business strategy of the parent firm?
3. What is the parent firm's competitive position in the Chinese market?
4. What are the parent firm's experiences of domestic M&A in China?
5. What is the corporate strategy towards internationalisation?
6. What did the parent firm intend to achieve through internationalisation?
7. To what extent has the Chinese government's 'go global' policy influenced the internationalisation of the parent firm?
8. What were the reasons for acquiring this particular firm?
9. How did the company mange the take-over/acquisition?
10. Overall, has the company achieved the strategic target through this acquisition?

Section B. Subsidiary Consolidation

1. When did the parent firm start to consolidate the subsidiary?
2. What did the parent firm want to achieve through subsidiary consolidation?
3. What are the milestones in consolidating the subsidiary?
4. How did the parent firm being from a developing country affect the consolidation?
5. How did the structure of the subsidiary change?
6. How did the management team of the subsidiary change?
7. Who, if any, was opposing subsidiary consolidation?
8. How was such opposition handled at the subsidiary (or by the parent firm)?
9. Overall, how do you evaluate the process of subsidiary consolidation?

10. Overall, what organisational achievements can be associated with subsidiary consolidation?

Section C. Power Dynamics

1. Were you involved in making decisions with regard to restructuring?
2. Where are the decisions made?
3. How does the parent firm influence these decisions?
4. How did you influence these decisions?
5. If you were not involved, do you still have influence over these decisions? Why or Why not?
6. What changes were introduced over the course of restructuring?
7. How were these changes introduced?
8. What changes were rejected by the subsidiary or withdrawn by the parent firm over the course of restructuring?
9. Why and how were these changes rejected/withdrew?
10. What adjustments were made over the course of restructuring?
11. Overall, how would you evaluate the management of this subsidiary?