CONQUERING KAZOIL:

THE EXPERIENCE OF CANADIAN AND CHINESE ACQUISITIONS

ABSTRACT

Using MNC as a cultural system perspective, we analyze how cultural differences affect the degree of capability transfer to the acquired unit. We followed one company over ten years and during two acquisitions by very different MNCs from two different national cultures – one more culturally distant than the other. Results of our investigation allow us to further elaborate on the model of capability transfer in cross-border acquisitions developed by Bjorkman, Stahl and Vaara (2007). In particular, we specify their propositions with regard to the types of integration mechanisms used, elaborate on the role of operational integration and stress the importance of the realized absorptive capacity.

Key words: cross-border acquisitions, cultural differences, capability transfer, outward Chinese FDI, Kazakhstan, China, Canada.

INTRODUCTION

International acquisitions are growing in number. Yet in spite of their popularity, the post-acquisition performance of the acquired units has been disappointing. In many cases, researchers and managers name national culture as a key variable causing the failure of integration efforts, resulting in a low level of synergies and fewer benefits than were originally expected (e.g. Olie, 1990; Cartwright and Cooper, 1996; Stahl and Voigt, 2005).

However, a recent paper by Bjorkman, Stahl and Vaara (2007) criticized existing research for being "overly simplistic in assuming that national cultural differences affect acquisition outcomes in isolation from other integration-related processes" (p. 660). Bjorkman et al. (2007) pointed at numerous conceptual and methodological problems that arise in studies with a limited focus on national cultural distance. To overcome these deficiencies, they suggest considering a multinational corporation (MNC) as a unit of analysis.

We respond to this call and aim in the following to accommodate *MNC as a cultural system perspective* in discovering how cultural differences affect the transfer of capabilities. In particular, we analyze how "specific configurations of beliefs, values and practices that exist between the units" involved in the acquisition (Bjorkman et al., 2007: 669) affect the degree of capability transfer to the acquired unit. Capability transfer is considered one of the benefits in acquisition research as once it is leveraged into the acquired unit it becomes a valuable resource (Barney, 1988; Bjorkman et al., 2007).

Our research differs from previous research in a number of ways. First, we follow one company over ten years as it experiences two acquisitions by culturally very different MNCs: one is more culturally distant than the other from the national culture perspective. Second, we take a subsidiary perspective and rely on the perspectives of the employees in the acquired unit on the acquirer, the acquisition process, the degree of capability transfer, etc. This is not to say that the acquirer side is ignored. In both cases, we use the internal documents, archival materials, etc. to the extent possible. Third, we do not assume that the focal subsidiary is homogeneous. We accommodate the differences in professional sub-cultures as well as between different organizational business units (David and Singh, 1994; Schweiger and Goulet, 2000). Fourth, we consider the local context in which the subsidiary is embedded as highly dynamic. We choose a developing country as our context. We study a country underrepresented in IB research, the Republic of Kazakhstan (hereafter referred to as Kazakhstan), located in northern and central Eurasia and now a member of the Commonwealth of Independent States (CIS). The rationale for examining Kazakhstan is because of (a) its potential strategic importance to international businesses, especially petrochemical and mining organizations, seeking to expand their international operations into relatively untapped markets, and (b) because it has experienced international capitalist market economic integration and transformation more slowly than other post-socialist nations in Central Eastern Europe. Although research into foreign acquisitions in developing countries has been rising, it is limited and focuses mainly on acquisitions of local firms by firms originating from the developed countries. In our paper, we consider the acquisition by firms originating from both developed (Canada) and developing (China) countries.

The paper is structured in the following way. First, we introduce the theoretical perspectives within which our study is framed. Then we present the methods and data, followed by the results and discussions. Towards the end, we present implications for future research.

THEORETICAL BACKGROUND

Bjorkman et al. (2007) offered a conceptualization of culture that might "extend the national/organizational distinction" by "viewing MNCs as cultural systems where beliefs, values and practices form specific configurations in particular parts of the corporation." (p. 661). This perspective, they contend, allows researchers to consider merging units as "specific cultural configurations embedded in their particular contexts" (Bjorkman et al., 2007: 661). Considering an MNC as a cultural system contributes to the cultural complexity perspective, which asserts the simultaneous existence of multiple cultures that may contribute to "a homogeneous, differentiated, and/or fragmented cultural context" (Sackman, 1997: 2). The cultural complexity perspective suggests that "members of an organization are unlikely to be restricted in their membership to one single culture or subculture, because people may identify with their gender, ethnic background, parent and spouse roles, sports club, city, the university from which they hold a degree, profession, department, division, work organization, geographical region, industry, nation and greater region such as Europe, America, or Asia" (Sackman, 1997: 2). Viewing an MNC as a cultural system and considering MNC units as "specific cultural configurations" accommodates the cultural complexity perspectives since MNCs by definition transcend all boundaries of the cultural groups named above.

Bjorkman et al.'s (2007) model

The central suggestion of the model of Bjorkman et al. (2007, p. 662) is that "cultural differences affect the post-acquisition capability transfer through their impact on social integration, potential absorptive capacity, and capability complementarity". Previously, the national culture similarities between two partners involved in an acquisition were found to affect positively the degree of capability transfer (e.g. Simonin, 1999; Cho and Lee, 2004; Olie, 1990; Cartwright and Cooper, 1996; Stahl and Voigt, 2005; Goulet and Schweiger, 2006). For example, both the acquired and acquiring units may be culturally inclined to mistrust each other (Schneider and Barsoux, 1997). If both parties are collectivist, the transfer would be easier as collectivists tend to apply newly acquired knowledge while respecting hierarchical arrangements, existing communication flows and current knowledge bases within organizations (Michailova and Hutchings, 2006). However, as Bjorkman et al. (2007) claim, adopting the MNC as a cultural system perspective allows a more nuanced perspective of the integration process. This is mainly due to the fact that capability transfer is considered dependent not just on national cultural differences but also on the dissimilarities between the acquiring and acquired units in terms of "business practices, institutional heritage and organizational cultures" (Simonin, 1999: 473).

The original model developed by Bjorkman et al. is presented in Figure 1. Below we briefly describe the integrative model and define the terms used.

- INSERT FIGURE 1 AROUND HERE -

In line with Bjorkman et al. (2007), we consider capability transfer as a process of "adding capabilities to those possessed by the receiving unit", which, "through complex interaction among the units in question", results in the adoption of new organizational routines in the receiving unit (p.661). In this paper, the term ‘capability transfer’ refers to *managerial capability transfer*. Managerial capabilities include decision making capabilities, the capability to take initiatives, the capability to deal with external environment, HRM capabilities, managerial finance capabilities and leadership capabilities – or in sum, the capabilities needed to perform specific and general management functions.

Social integration has been conceptualized as “the creation of a shared identity, the establishment of trusting relationships, and the absence of divisive conflicts between the members of the combining organizations” (Bjorkman et al., 2007: 662). Consequently, we link the high level of social integration with (a) an absence of in-group vs. out-group/”them” versus “us” thinking, (b) a high level of trust and confidence in the new owners, and (c) shared organizational goals. A high degree of social integration is expected to increase the level of capability transfer from the acquiring to the acquired unit (Proposition 8 in Bjorkman et al., 2007).

Potential absorptive capacity was originally introduced by Zahra and George (2002), who defined four dimensions of absorptive capacity – acquisition, assimilation, transformation and exploitation, where the first two dimensions form potential absorptive capacity and the latter two constitute realized absorptive capacity. They argue that potential absorptive capacity does not guarantee exploitation of the acquired knowledge; thus realized absorptive capacity is the primary source of performance improvement. As put forward by the authors, “firms can acquire and assimilate knowledge but might not have the capability to transform and exploit the knowledge for profit generation" (p. 191). Bjorkman et al. (2002) consider potential absorptive capacity only as an important intermediate variable between cultural differences and the extent of capability transfer. A high level of potential absorptive capacity is expected to be associated with higher levels of capability transfer between the acquiring and acquired units (Proposition 9 in Bjorkman et al., 2007). However, large cultural differences may negatively affect the level of potential absorptive capacity of the acquired unit (Proposition 2 in Bjorkman et al., 2007).

Another intermediate variable - *capability complementarity* – is expected to contribute positively to capability transfer (Proposition 10 in Bjorkman et al., 2008). However, the relation between cultural differences and capability complementarity is proposed to have a curvilinear form. That is, moderate cultural differences between the acquiring and acquired units are expected to be associated with higher levels of capability complementarity while a large cultural distance is proposed to decrease capability complementarity (Proposition 1 in Bjorkman et al., 2007).

In addition to the three intermediate variables, Bjorkman et al. (2007) consider the moderating role of the *use of social integration mechanisms* and the *degree of operational integration*. In particular, they expect the extensive use of social integration mechanisms to reduce the negative effects of cultural distance on social integration (Proposition 4) and increase the potential absorptive capacity of the acquired unit. Examples of social integration mechanisms are personnel rotation, short-term visits, participation in training programs and meetings, membership in cross-unit teams, task forces and committees (Bjorkman et al., 2007). On the other hand, they expect the high degree of operational integration to increase the negative effects of cultural differences on social integration (Proposition 6), arguing that the changes associated with operational integration and control "are often resisted by members of the acquired firm, because they signal a general disregard for the legitimacy of the acquired firm's ways of doing things" (Bjorkman et al., 2007: 666). Yet, common structures, processes and practices may provide easier access to codified knowledge in the organization and contribute to the development of the potential absorptive capacity of the acquired unit (Proposition 7 in Bjorkman et al., 2007).

Generally speaking, the MNC as a cultural system perspective provides a rather difficult framework for empirical research. The reason is the need to follow a "*both-and* logic" (Sackman, 1997: 3; original italics). The main idea is to create "a picture of cultural life in organizational settings" emphasizing the multiplicity of cultural identities (national, regional, sub-organizational, professional, gender, etc.) that "may be in a constant flux depending on the issues at hand" (Sackman, 1997: 4). For instance, post-acquisition integration might be difficult to achieve due to the strong presence of "them" versus "us" thinking caused by many cultural dichotomies: foreigners versus locals, West vs. East, big MNCs vs. local companies, etc.

The original relations proposed in the theoretical model of Bjorkman et al. (2007) have not yet been tested. Neither has the model examined through the explorative case study. We intend to do so and in the following present the data and the context in which the examination of the model takes place.

METHOD

The present methodological strategy, based on a single case study (Yin, 1994), is to explore, describe, and explain how cultural differences affect capability transfer. The longitudinal design of the study makes it possible to investigate the changes at the subsidiary level over time. We followed one company, currently named KazOil, over ten years and during two acquisitions by very different MNCs (Hurricane and CNPC) from two different national cultures (Canada and China respectively). At the time of our first research inquiry in 1997, KazOil, which was then called “Yuzhneftegaz”, had recently been bought by the Canadian oil company Hurricane for 120 million US dollars. We followed the post-acquisition process closely for the first two years. By the end of 1999, KazOil became an international energy company, with all of its assets, such as oilfields and refineries, in Kazakhstan. KazOil 's total annual production capacity of crude oil exceeded 7 million tons. The company became publicly listed and its shares started trading on the Canadian stock exchange. On October 25, 2005, China's largest oil producer CNPC closed the deal to purchase KazOil for 4.18 billion US dollars, the largest overseas takeover transaction ever made by a Chinese company. CNPC had to out-compete two major rivals – the Russian “Lukoil” and the Indian “Mittal Steel”. At the time of acquisition, KazOil owned 12 oil fields and exploration licenses in six blocks in Kazakhstan with great exploration potential.

Our goal is to evaluate the degree of capability transfer to the acquired subsidiary two years after each acquisition. We maintain our focus on the local subsidiary and study the local employees’ reactions to the organizational changes following acquisition. We examine “how specific integration concerns are socially constructed within the post-acquisition organization; that is, how they are interpreted and (re) constructed by the different actors” (Vaara, 2003: 863).

Combining various research methods and investigators has allowed us to "partially overcome the deficiencies that flow from one investigator or one method" (Denzin 1978: 294). We have used data triangulation and all three of its subtypes: time, space and person. We explicitly searched for as many different data sources as possible (face-to-face interviews, group interviews, intra-company surveys, participant observations, archival material) at different times (1997-2007) and in different sub-units of the same subsidiary (three business units, various departments). To ensure a greater reliability in observations, we used investigator triangulation that implies using multiple rather than single observers of the same object (Denzin, 1978).

Interviews were a main method of data collection. Our respondents insisted on full anonymity and felt very uncomfortable about the voice recorder so many interviews were hand-transcribed by the authors. Respondents felt more comfortable talking about the issues in focus in informal surroundings: during coffee breaks, social gatherings, around the water cooler, etc.; hence, the majority of interviews were informal and open-ended. Only few managers agreed to be interviewed in a more formal research setting.

Although we had to use a convenience sample (often a 'snowball' method), we managed to collect data from a wide range of employees from various functional areas (production, finance, HRM, IT, safety), hierarchical levels (top, middle and low-level managers, supervisors, specialists), demographic groups, etc. After 1999, the company had three business units located in three different cities: headquarters in Almaty, the main production in Kzylorda (oil extraction field and back up office) and refinery plant in Shymkent. The three business units had very different organizational subcultures that could be explained by differences in the educational background of employees, labor market dynamics and the level of economic development. In our sample, we tried to cover all three locations to the extent possible.

We encouraged people to talk about their work, social environment, routines, etc. As common concerns, comparisons between the 'good old days' and the 'new Western/Canadian type of management' and later between the 'good old Canadian management' and 'back to the USSR style of

Chinese management' have emerged. Both authors are acquainted with the cultures under study and speak the local languages.

In 1997, a survey was used to study the attitudes of the top local managers (the former president of the company, VPs, heads of divisions and departments) and their perception of the organizational changes that had taken place. Further, one of the authors spent two weeks in the classroom right after the acquisition together with the group of local managers, who were taking an "Essential Management Skills" course taught by Western instructors. We also benefited from obtaining insights from the intra-company study on job satisfaction and motivation of local workers, which was based on a survey carried out in 2001.

A great deal of data was collected through a process of participant observation as one of the authors became an active member of the group being studied. She has been working with local employees during her numerous visits to all three business units in 1998, 1999, 2001, 2005, 2006, and 2007.

In the next two sections, we use the results of the interviews conducted at various times with local managers and employees and combine them with data collected through participant observation and from archival records. But first, we would like to present the context: the company and its journey over the years.

THE CONTEXT: THE COMPANY – A TEN-YEAR JOURNEY

Yuzhneftegas, prior to 1997

For many years, Yuzhneftegaz was embedded in the system of a centrally planned state economy. Even after 1991, Yuzhneftegaz remained under the protection of the Ministry of Energy and was not subject to open international competition.

At that time, Yuzhneftegaz was a bureaucratic organization with a high level of normalization, control, and power centralization. Although the major concern was oil exploration, the technology was outdated and all business processes needed modernization. A heavily bureaucratic, extremely centralized top-down management with an authoritarian and paternalistic decision style led to a very strong but ineffective control on the one hand and to a lack of people orientation on the other. The hierarchical organizational structure and the low participation of the workers in decision making have created a feeling of great social distance between different levels within the organizations, a “them vs. us” attitude on the shop floor and totally disturbed communication lines among these levels.

Yuzhneftegaz was located in a small town of Kyzyl-Orda (now Kzylorda). The whole town’s existence was dependent upon Yuzhneftegaz: the company was the main employer (employing more than 5,000 local citizens), the biggest contributor to community development and the most important tax payer. In many families, several generations had been working for Yuzhneftegaz.

August 1996: Canadian Acquisition. Hurricane, 1996 – 2005

In August 1996, Hurricane, a Canadian oil company, concluded an agreement to purchase the assets of Yuzhneftegaz from the Government of Kazakhstan and created Hurricane Joint Stock Company.

Already in January 1998, Hurricane’s proved plus probable reserves were independently assessed at over 429 million barrels, an increase in reserves of 10% since 1997. Plans for future growth and long-term investor value return focused on initiatives such as the development of current licensed areas, the acquisition of new licenses and the sale of crude oil and refined products to export markets in Central Asia and China. Hurricane had been continuously examining various opportunities to reduce costs. According to the agreement with the Government of Kazakhstan, Hurricane was not allowed to fire people during the first three years after acquisition. Instead, the company focused on refining its cost control systems, and eliminated all discretionary capital expenditures with the exception of approximately 1.5 million US dollars for upgrading the central processing facility.

Part of the commitment made in connection with the purchase was to provide training programs for managers and the workforce previously employed by Yuzhneftegaz consistent with their needs and those of new owners. Most of the approximately 5,700 employees of Hurricane JSC have undergone a large-scale training program over five years, which was provided and administrated by representatives of the Canadian headquarters. Training has been provided in all areas of the company’s operations including, but not limited to, all field operations, maintenance, environmental, safety, and management skills. In addition to the training areas defined in the purchase contract, Hurricane undertook a complete evaluation of the safety measures in place and implemented the necessary safety training in all company departments.

October 2005: Chinese Acquisition. KazOil Inc, 2005 - …

CNPC closed the deal on October 25, 2005. Immediately afterwards, over 30 employees from the China National Oil and Gas Exploration and Development Corporation (CNODC), a subsidiary of CNPC, came to KazOil to manage the takeover.

CNPC retained the old personnel and the original operating mode of KazOil. Only one month after the deal was concluded, KazOil's daily crude oil output rose from 150,000 barrels to 200,000 barrels, and the proven reserve of crude oil rose sharply. In 2006, KazOil employed 3,192 people, mainly from Kazakhstan but also including 86 international employees. Nearly 20 international employees, mainly Canadians, resigned almost immediately after CNPC's takeover, but according to an insider "*most of them had decided to leave even before CNPC closed the deal*".

Upon acquisition, in the spirit of "*win-win and mutual benefit*", CNPC "*chose to cooperate*" with KazMunaiGaz, the state oil company of Kazakhstan. The two parties signed a memorandum of understanding, according to which KazMunaiGas would obtain a certain number of KazOil shares – enough to gain strategic control over the development of the country's mineral resources – together with joint management rights over SHNOS (a refinery plant) and its products. CNPC was also confident that "*taking advantage of CNPC's strength in capital, technology and management, as well as CNPC's valuable experience in Kazakhstan, the production capacity of KazOil will be increased*" and thus provide the Sino-Kazakhstan oil pipeline[1] with "*a reliable supply*" (internal documents).

1 The Sino-Kazak oil pipeline from Atyrau, a city on the coast of the Caspian Sea in Kazakhstan, to Dushanzi, Xinjiang, China, covers a distance of 3,000 km with an oil transfusion capacity of 20 million tons yearly.

In the next section, we present the perceptions of the local employees of the Kazakhstani[2] subsidiary of the post-acquisition stage following acquisition by Hurricane and CNPC.

RESULTS

Canadian acquisition

MNC cultural differences: Hurricane versus Yuzhneftegaz

When Hurricane acquired Yuzhneftegaz, the corporate culture of the acquired company had many traits of a typical post-Soviet company: a high degree of centralization, heavy bureaucracy, extreme respect for authority, high uncertainty avoidance, and a short-term orientation (Duisenbekov et al., 2002; Muratbekova-Touron, 2002). For many years in Yuzhneftegaz, "*the boss was The Boss*": he - and only occasionally she - made decisions largely single-handedly and transmitted them to the management level below, which in turn passed them on to the junior level of management with appropriate exhortations for implementation.

Yuzhneftegaz had a very hierarchical organizational structure. Workers had little influence on decision making and little or no opportunity to express their opinions. There was a feeling of great social distance between different levels within the organization, a "them vs. us" attitude on the shop floor and totally disturbed communication lines among these levels.

Following the assumption of a strong link between national and organizational cultures (e.g. Laurent, 1983; Hofstede, 1991), we can state that Hurricane's corporate culture had many characteristics of a North American enterprise. It features a decentralized structure and delegation (low power distance), low uncertainty avoidance and individualism (e.g. Hofstede, 1991; Schneider and Barsoux, 1997). It is also a low context and universalistic culture, which privileges rules rather than relationships and where

---

[2] The term "Kazakhstani" refers to people living in the Republic of Kazakhstan rather than to the specific ethnic group. The original ethnic population of Kazaks constituted only 17% of the total population in Soviet times; nowadays, due to migration and immigration, this figure has risen to 53.4 %. Other ethnic groups include Russians, Ukrainians, Germans, Koreans, Poles, Greeks, Tatars and Uygurs.

information flows freely (Trompenaars and Hampden-Turner, 1998). Apart from the above-mentioned characteristics, it is also a doing culture with a long-term orientation (e.g. Adler, 1986; Kanungo and Jaeger, 1990).

As many other MNCs operating in the countries of the former USSR, Hurricane was challenged by the lack of human capital. Although the employees 'brought up' in the Soviet system were well educated in mathematics and other natural sciences, they had no training in areas such as leadership, communications, teamwork, and motivation, all of which are required in a market-driven society (Safavi, 1997; Charman, 1997; Wilson et al., 2002).

Thus, according to Propositions 2 and 3 of Bjorkman et al. (2007), great cultural differences between Hurricane and KazOil should be associated with low levels of potential absorptive capacity and social integration respectively.

Post-acquisition stage: professionalization

The Canadians were under obligation to select their employees carefully and to invest considerably in their training in order to have a qualified labor force. The training programs and especially the day-to-day coaching of employees by the Canadian expatriates were highly appreciated by the Kazakhstani managers.

> *"When they came* [the Canadians, in 1997] *there was a lot of resistance, especially because they took over all the managerial positions and pushed all locals who had held those positions one step down: a head of department suddenly became a deputy head, a president became a vice-president … but now I can see that it was necessary. Otherwise, we would never have learned how to do business properly." (A head of department, production)*

Even the production workers who had to make great adjustments to their day-to-day routines, agreed:

> *"Yes, the Canadians really put things in order … and we still do things the same way now as it is the right way to do business … We could see the effects immediately: no fatal accidents, a safe working environment, certain norms of behavior … definitely, it works!."*

The employees of the acquired company considered the Canadian style to be professional management.

> *"Our director* [a Canadian expatriate] *had an advanced, professional style of working. He established a normal work atmosphere: good relationships, mutual respect, etc. He was a real professional. We liked working with him. If he had asked us to work with him in the long term, our whole team would not have hesitated for a second." (A senior manager, finance)*

The open communication, informal management style and interest in subordinates were extremely valued by the employees of the company.

> *"Our boss* [Canadian manager] *often came to see how we were doing, to chat, to hear our concerns. He was interested in our progress… We were aware of what was going on in the company and in its environment. I don't know whether it was the style of our boss or the Western style in general, but he thought that his team should be fully informed." (A senior manager, finance)*

The Canadians demanded knowledge and skills of a higher level than what generally existed at that time. Local managers, especially the younger generation, appreciated the challenge and were interested in professional development and career growth. This meant that the qualifications of Kazakhstani employees improved in general and a cohort of local managers was formed to enter the Succession Plan (a career development program aimed at gradual substitution of expatriate managers by local managers).

The Kazakhstani managers felt involved in the decision-making process, they were familiar with the company strategy and they enjoyed the informal relationships within the company.

> *"There was a company spirit. There was a unity, cohesion. You worked not only for yourself, for your salary. You could see the direction the company was moving in, and you felt that your work had an impact." (A middle manager, IT)*

The Canadian management also invested in establishing and developing a HRM department. As the highest priority was given to training, the Training Department was the only HR-related function for the first couple of years. The existing Personnel Department was a simple administrative function taking care of papers and bureaucratic procedures. The Canadians intended to strategize the HR function but there was a long way to go. The immediate goal was to develop common human resource policies and practices for all business units and departments. And they succeeded.

> *"All policies and procedures were put in order, from recruitment to job descriptions and all the way to performance appraisal." (An employee, HR)*

They also appointed local managers to lead HR functions in all three business units and invested in their development.

> *"No one taught HR in the Soviet era. There was no such thing! I had to take courses while I was working. The company not only paid for my education but also provided support during the tough times. But most of all, I learned from my [Canadian] manager." (A senior manager, HR)*

Hurricane adjusted their "home-made" HR practices to the local conditions using the local knowledge of line managers.

> *"Our boss did not allow HR managers to interfere with his decisions. If he had to hire an employee – he would do it. If he wanted to retain an employee, he could propose an extremely high salary. He also made decisions regarding training or career advancement." (A senior manager, finance)*

In summary, by introducing their management practices, by consistently communicating them and by involving the local employees in the implementation of those practices, the managers of Hurricane achieved a high level of capability transfer to the acquired company. Figure 2 proposes a graphical illustration of how the management of Hurricane influenced capability transfer by using appropriate integration mechanisms and through operational integration of KazOil. The employees of KazOil perceived the Hurricane corporate culture as highly professional, low context (referring to the cultural dimension of Hall and Hall, 1990), and with a low power distance (referring to Hofstede (1991).

On the one hand, this type of culture implied the involvement of employees in the decision-making process, providing feedback, creating transparent communication channels, investing in training, establishing “warm” relationships, and more generally, creating company spirit (arrow 1). All of these characteristics relate to the social integration mechanisms that contributed to the development of “us” thinking and trust and confidence in the new owners among the employees of KazOil. They also played an important role in creating shared organizational goals. In other words, these integration mechanisms led to a high level of social integration (arrow 2 and Proposition 4 of Bjorkman et al., 2007). The use of such integration mechanisms improved the qualifications and motivation of KazOil employees and resulted in a low employee turnover (arrow 5). Thus, it increased potential absorptive capacity, which consists of motivation and the ability of the acquired firm to attain and assimilate capabilities (Proposition 5 of Bjorkman et al., 2007).

On the other hand, this type of culture favored the development of common processes and practices (arrow 3). For example, we could observe the development of common HR practices and policies that implicated the cooperation of all business units in the acquired firm. The introduction of common processes and practices could be translated into operational integration of the acquired firm. It enhanced the motivation of KazOil employees and thus increased their potential absorptive capacity (arrow 4 and Proposition 7 of Bjorkman et al., 2007).

High social integration and increased potential absorptive capacity resulted in a high degree of capability transfer (confirming the Propositions 8 and 9 of Bjorkman et al., 2007). Indeed, we could observe the transfer of managerial capabilities from Hurricane to KazOil: the employees of the acquired firm used managerial knowledge that originated in the acquiring firm. According to the data gathered, managerial capabilities such as making decisions, taking initiatives, leading people and dealing with auditors as well as HRM capabilities, and managerial finance capabilities were significantly improved in KazOil.

- INSERT FIGURE 2 AROUND HERE -

Chinese acquisition

MNC cultural differences: CNPC versus KazOil

The scholars make a clear distinction between the evolution of state- and private-owned enterprises in China (e.g. Park et al., 2006; Ralston et al., 2006). The state-owned enterprises of China had many features in common with the state-owned enterprises of the Soviet Union. The centrally planned and closed economic system led to the creation of highly bureaucratic and hierarchical enterprises, where promotions were based on the knowledge of and obedience to standardized rules and practices (Ralston et al., 2006). Chinese state-owned enterprises “have assimilated numerous core business values and practices of Western market-oriented companies” (Ralston et al., 2006: 838). However, their performance is still “evaluated against state-set goals, and resources are distributed according to political rationales instead of market efficiency” (Park et al., 2006: 134). This affects operational efficiency and thereby the performance of state-owned enterprises because of the lack of incentives to improve ineffective management (Park et al., 2006).

A network of social and interpersonal relationships (guanxi) is extremely important in Chinese society (e.g. Xin and Pearce, 1996; Bjorkman and Lu, 1999). This reflects the importance of such cultural dimensions as particularism and low context, which have a strong effect on the management style of Chinese companies.

In 2005, KazOil had been owned by a Western company for nine years. The Canadian presence had strongly influenced the corporate culture of KazOil. In line with what was stated by Rugman and Li (2007) regarding the behavior of successful MNCs from North America and Europe that go abroad to exploit natural resources, the Canadians at KazOil tended to exploit their managerial and marketing firm-specific advantages. MNCs originating from developed countries see their main goal as contributing to producing qualified and experienced local employees in developing countries (e.g. Braga Lacombe, Tonelli and Caldas, 2007).

KazOil as a successful ‘Western’ subsidiary attracted younger employees, often with a Western education. In addition, the majority of Hurricane employees were involved in large-scale training in all areas of the company's operations. 'Western' compensation and performance schemes focused on individual incentives and rewards as well as individual appraisal have been implemented with some success in Kazakhstan in general (Minbaeva et al., 2007) and in KazOil in particular. Thus, the need to retain qualified human capital (in a highly competitive and very dynamic labor market) and changes in individual preferences of Kazakhstani workers (i.e. the shift from group-oriented values to individualism) had a strong impact on the corporate culture of KazOil.

HRM practices utilized in the foreign-owned subsidiaries in Kazakhstan have become a hybrid of old style Soviet practices and Western-based approaches (Minbaeva et al., 2007). For example, personality and professionalism were rated higher than seniority (which should be important given the respect for age emphasized in Kazakh culture) in making promotion decisions (Minbaeva et al., 2007).

Thus, we can state that the differences between CNPC and KazOil cultures are relatively great, which should result in relatively low levels of potential absorptive capacity and social integration (Propositions 2 and 3 of Bjorkman et al., 2007).

Post-acquisition stage: "back to the USSR"

The employees of the three different organizational subcultures of KazOil had different attitudes toward the acquisition by CNPC. The majority of employees of the Kzylorda and Shymkent plants were passively waiting for the future (which could be explained by the job shortage in their regions). The first wave of Almaty head office employees left as soon as they learned about the arrival of the Chinese. The second wave left after the Chinese came. These employees were frustrated by the "*non-professional Chinese management*". They claimed that "*staying in the company would harm their professional development*" and "*slow down their career*". In addition, the headhunters started to approach managers not just at the head office but also in other business units.

> *"Of course, there are some professional Chinese managers. But not many. In general… they are weak, professionally speaking. And our local employees don't like this. They want to learn something. And therefore many of them are leaving. Those of us who are staying are putting up with the situation because it is comfortable not having to work a*

lot. I have children. And for the moment, this work suits me." (A manager, corporate taxes)

"We should remember that it is a public company. And they [the Chinese managers] *are public employees. Remember how we worked in the old Soviet times? That's how they work now!" (A middle manager, safety)*

Absence of the retaining policy coupled with the inflexible and hence non-competitive salary structures led to a lower level of skills among the new recruits.

"There were very good specialists working for the company. They had international certificates, experience, etc. Headhunters were all over us. Not anymore." (A finance manager)

"The Chinese are cost-oriented. They think that proposing average salaries for all employees and not differentiating will work. But they are wrong." (A finance manager)

Those who decided to stay with the company have priorities other than career development: they care about stability, comfort, maternity leave, family insurance, reasonable working hours, absence of stress and similar benefits. An important advantage introduced by Chinese management and appreciated by all company managers was medical insurance for all employees with some benefits for their family members.

"Chinese managers come to work at 9 am and leave at 6 pm regardless of whether there is an urgent project or not. The same is true of vacation time. They don't care if there is a deadline that needs to be met. If the boss does not care, then the subordinates do not care either… It is very comfortable to work in a company like this if you have children or if you are pregnant. There is no stress." (A middle manager, finance)

Kazakhstani managers described the organizational culture of CNPC as autocratic, the distance between superiors and subordinates being large and well maintained. They constantly compared the Chinese respect for authority with Canadian delegation and empowerment:

"If we had not known the Canadian way [of management], *the Chinese way would have been very easy to accept. In other words, if they had come in 1997, it would have been easier. But we changed! We now know that there is a better, more professional way to do business." (A translator)*

We often heard the expression "*back to the USSR*" regarding the Chinese "*autocratic leadership style*".

"Chinese managers do not encourage employees to express their opinions. They do not expect us to be proactive. They expect us to do what we are told." (A manager, finance)

"Recently we had a visitor: a top manager from China. You should have seen it! Like in the old [Soviet] *days: red carpet, flowers, music, etc. I though I was having déjà vu" (A manager, production)*

According to the interviewees, there are two types of communication problems with Chinese managers. The first is linked to the language skills of Chinese managers. Kazakhstani managers' mastery of the English language was checked already during the first selection interview.

"We have language problems with the Chinese managers. We simply do not understand each other." (A manager, finance)

The second type of communication problem regards the absence of transparency and free information flow.

"It is not clear how the Chinese managers make decisions. When you have a problem, you can send them e-mails, memos… but you get no response…just silence…then you go to see them, saying that it is extremely urgent, that you cannot wait anymore. After some pressure, they usually say 'yes'. But it is not an interactive process. I call it top-down communication." (A senior manager, finance)

"As I understand it, the Chinese culture is a culture of silence. They are very secretive. Nothing is explicitly articulated." (A manager, IT)

Our respondents perceived this extremely careful and restrained way of communicating as being linked to the respect of hierarchy:

> *"Chinese managers have a hard time making up their minds. It slows down the process of decision-making. I think it is because they are too dependent on their superiors. For them, the president of the company is God and the King. For example, managers do not speak in the presence of the President at meetings. He alone speaks and others just listen!." (A manager, corporate taxes)*

There were two issues upon which the opinions of our respondents were divided. Quite a few respondents acknowledged the fact that the Chinese are very good at dealing with government officials:

> *"Certain things need to be done in certain ways. For example, if there is a conflict with, say, a governmental organization. They say 'All right, we found these and these mistakes and operational deficiencies. Pay the formal fee and we will end the conflict'. I know that the Chinese would say 'yes' to that deal. The Canadians – never! They would push it further and further, hitting their heads against the wall … these kinds of things did not make them popular among government officials, you know. I am very much for obeying the rules and against any kind of nepotism and bribery. But this is the East, and that's how things are done here." (A senior manager, HR).*

Other respondents regarded this kind of behavior of Chinese managers as "*too submissive*" and "*reactive*".

> "*We are a progressive company. We should show the way and do things differently. Like the Canadians did: they would go all the way, discussing things in the media, appealing in courts, etc." (A translator).*

Another issue upon which the opinions of our respondents were divided is related to the increased centralization of HR-related issues and the power given to the HRM department in the head office in Almaty.

"The HR department gained importance. Our status increased. We are really involved in the decision-making process. The HR department can be considered a strategic partner. The company directors pay attention to the opinions of HR managers." (A middle manager, HR)

While the managers of the HRM department enjoy this position, the managers of other departments feel frustrated and define HR managers as "*the drivers of the owner's policies*".

"HR managers meddle in everything… They told us not to speak about salaries with candidates for jobs. How can you talk to a person whom you want to hire and not to speak about his/her future salary? There was even a case when a person who was in the process of being recruited called us and said 'What kind of HR managers do you have? How can they talk to people like that!' And then he said that he did not want to work for a company where HR managers treat employees in THAT way." (A manager, finance)

According to the HR managers, Chinese management did not change the HR policies and practices of the company. The HR department maintained all the procedures developed under Canadians.

"I did not feel any strong influence from CNPC in terms of pushing us into their way of doing business. They came and said 'you had it better then we have it – keep doing your job'. Perhaps it could be attributed to their philosophy [holism]*… When the Canadians came they said 'OK, whatever you are doing is wrong. Let's pull up all of your "trees" and plant ours, new ones'. So they did that and then they waited till their "trees" started growing. The Chinese, they are different. They came and said 'Oh, you have something growing. Keep it this way. Let's see how well it grows for the next couple of years and then decide what is right and what is wrong'… And now, after a year and a half, they have started modifying some things. But very accurately." (A senior manager, HR)*

Although the Chinese are much more "*careful about money*", the bonuses are more systematic these days. Performance-based bonuses are paid once or twice a year and represent up to 50-70% of the monthly salary.

"Everything is better now. We have medical insurance. We have good bonuses. Before, in Canadian times, it was only expatriates who benefited. But people are still leaving and that is because of the different style of management." (A manager, corporate taxes)

It should be noted that in 2001-2002, the Government of Kazakhstan instituted its Nationalization Policy, according to which foreign MNCs were obliged to develop local managers and employees who could succeed foreign managers in the long run. Further, according to the contract/license agreement under which KazOil was operating, one percent of the company turnover had to be spent on training and development. Hence, the training budget was not cut (due to the legal restrictions); it was continuously increasing (due to the increase in oil exploration). Yet the new owners "*were not really pushing*":

"We do not have an overall training strategy. We have a certain amount of money to spend on training per year. And all we have is one-time service, single and often non-related courses. In the eyes of the Chinese managers we are doing a good job: we follow the law, fulfill the budget and obey the rules." (A senior manager, training)

Figure 3 summarizes this discussion and illustrates how the use of integration mechanisms by CNPC leads to a low level of social integration of KazOil. It also indicates the absence of operational integration of KazOil, which, when coupled with a low level of social integration, results in a low level of capability transfer to the acquired firm. The employees of KazOil perceived the corporate culture of CNPC as high context (referring to the dimension of Hall and Hall, 1990), with a high power distance (referring to Hofstede dimension, 1991), particularistic (referring to the dimension of Trompenaars and Hampden-Turner, 1998), and non-professional. These characteristics of the CNPC culture signified low feedback, difficult communication and non-inclusion in decision-making of the employees of the acquired firm (arrow 1). The absence of integration mechanisms used by the previous acquirer resulted in frustrations on the part of the KazOil employees regarding their career development: they felt they could not learn any more from the new owners (arrow 2). It also contributed to the development of "them" thinking regarding the acquiring firm. The employees of KazOil did not trust and respect the new owners and did have confidence in them (arrow 3). The integration mechanisms used by CNPC were bonuses, fringe benefits and stable and non-stressful working conditions. They contributed to retaining only those employees for whom career development was not a main concern and for whom staying in the company was often temporary (e.g. women with children, pregnant women) or for whom the job in the company was their only chance of employment (e.g. employees of Kyzyl-Orda unit). These employees were not truly integrated (arrow 4).

As observed in the case of the CNPC acquisition, low social integration and low potential absorptive capacity resulted in a low degree of capability transfer (arrows 5 and 6).

- INSERT FIGURE 3 AROUND HERE -

DISCUSSION

The aim of our study was to investigate how capability transfer to a foreign subsidiary is influenced by differences in cultural systems between the acquiring and the acquired firms. Bjorkman et al. (2007) proposed that cultural differences between the acquirer and acquired units affect the post-acquisition capability transfer through their impact on social integration, potential absorptive capacity and capability complementarity. In general, our findings (see Table 1) support the relations proposed by Bjorkman et al. (2007). In addition, we further specify some of their propositions below.

- INSERT TABLE 1 AROUND HERE -

One of our observations is related to the moderating role of integration mechanisms in the relationship between cultural differences and social integration. In particular, we noted considerable differences between the *types* of integration mechanisms used during the Canadian vs. Chinese post-acquisition stage. While the Canadians used integration mechanisms emphasizing knowledge transfer through training, coaching and expatriation and focusing on two-way communication, the Chinese relied on the use of bonuses, fringe benefits (medical insurance) and work conditions (stable hours, no overtime). They also practiced top-down control and relied on ambiguous communication. Referring to the Herzberg’s motivation-hygiene theory (1966), we propose that only integration mechanisms associated with true motivators, i.e. corresponding to the need for responsibility, career growth, achievement and recognition, will reduce the negative effects of cultural differences on social integration (refining Proposition 4 in Bjorkman et al., 2007).

The differences between the types of integration mechanisms used during the post-acquisition stage may also support the popular argument that the acquirer tends to employ the home country-specific HR practices and policies to integrate acquired companies (Goulet and Schweiger, 2006). This is especially the case for acquisitions taking place along the developed-developing country axis (as opposed to developed-to-developed and developing-to-developing in Braga Lacombe et al., 2007). Another explanation for the differences in the types of integration mechanisms may be linked to the discussion on the country-of-origin effect, according to which MNCs from certain national business systems have so much success internationally that they dominate the general view of how to do business. This was clearly the case of the Canadian acquisition, where the acquirer relied on North American management practices that had proved successful in previous acquisitions by other North American MNCs in Kazakhstan (e.g. Chevron, see Minbaeva et al., 2007).

We propose another potential contextual moderator of the relationship between cultural differences and capability transfer: The cultural tolerance of the acquired firm vis-à-vis the acquirer is linked to the degree of development of the acquirer's country of origin. On the one hand, this cultural tolerance of the Canadians was explicitly expressed by the employees of KazOil, who called their style of management "*professional*". On the other hand, they confirmed their expectations of the "*non professional way*" of Chinese management.

The results of our study also show the moderating role of operational integration in the relationship between cultural differences and potential absorptive capacity (confirming Proposition 7 in Bjorkman et al., 2007). As demonstrated, a high degree of operational integration of KazOil by the Canadians reduced the negative effects of great cultural differences on potential absorptive capacity.

In line with Bjorkman et al. we would like to stress the crucial role of potential absorptive capacity (Proposition 9 in Bjorkman et al., 2007), but we would also emphasize the importance of the realized absorptive capacity (Zahra and George, 2002). We concur with Zahra and George (2002), who argue that more attention should be devoted to studying the realized absorptive capacity, which emphasizes the firm's capacity to leverage the knowledge that has been previously absorbed (Zahra and George, 2002). In the case of the CNPC acquisition, the Kazakhstani employees failed to leverage knowledge that had been previously acquired and assimilated during the Canadian acquisition as they were not motivated and did not have opportunities to transform and exploit the knowledge for profit generation (Zahra and George, 2002; Minbaeva et al., 2003).

Finally, we would like to stress the importance of considering the culture of the acquired unit as heterogeneous. We observed substantial differences in the perception of the employees in different units, of different genders and age. Individual differences would also matter for absorptive capacity as employees vary in their ability, motivation and use of the opportunities provided by the organization. Hence, in line with Stahl and Voigt (2005), we would argue that since any organization consists of "numerous individuals with distinct self-identities that are socially and contextually produced", future research on capability transfer would benefit from considering culture as "an essentially dynamic and emergent phenomenon that comes into existence in relation to and in contrast with another culture" (p. 70).

LIMITATIONS AND IMPLICATIONS

This research has a number of limitations that should be acknowledged. In terms of the data, not all information was available. We had to eliminate any questions related to, for example, detailed aspects of company performance, which the informants perceive as "*confidential*". Many managers agreed "*just to talk*" to us, but not many agreed to formally participate in the study. That is a common problem as managers in former socialist countries do not see the point of academic investigation into their professional activities and treat such interventions with considerable suspicion (Gilbert, 1997). As for the design and preparation of the interview questions, we took into consideration (i) the unfamiliarity of the interview experience from the point of view of local informants and (ii) the generally underestimated problem of converting Western management terminology into Russian (Holden, 1996). Concerning the latter, future researchers should be aware of the particularly difficult issue of terminological imbalances between English and Russian in the sphere of management.

To evaluate more accurately the degree of capability transfer, we would consider it beneficial to follow the company for a longer period of time (e.g. nine years, as was the case of the Canadian acquisition). Although we set a time limit within which we wished to evaluate capability transfer – two years after acquisition, the changes introduced by the Chinese may be more gradual and hence need more time to become visible at the organizational level. Further, we could have considered interviewing the representatives of the head offices. Especially in the case of the second acquisition by CNPC, that would have allowed us to further investigate the diffusion of practices, as Zhang and Edwards (2007) have pointed out that Chinese MNCs “are attempting to find and adopt new practices from the local organizations” (p. 2161). Using our data we were only able to support Zhang and Edwards’ conclusion that Chinese MNCs “are not seeking to diffuse practices from their home base to the host country” (2007: 2161).

Finally, we proposed that post-acquisition performance in terms of capability transfer to the acquired unit is dependent upon the state of development of the acquirer’s country of origin. Comparing the peculiarities of capability transfer in three different frameworks (the developed-developed, developed-developing, and developing-developing countries axes) would be a challenging research direction. Future research might consider cultural tolerance of the acquired firm vis-à-vis the acquirer regarding the state of development of the acquirer’s country of origin.

These limitations aside, the results indicated the usefulness of the proposed *MNC as a cultural system perspective* in investigating how capability transfer to a foreign subsidiary is influenced by national cultural differences *as well as* the differences in cultural systems between the acquiring and the acquired firms. Focusing on national cultural differences only would not have been helpful in understanding post-acquisition performance in terms of capability transfer to the acquired unit as we would have expected a higher degree of capability transfer from the acquirer with the low national cultural distance vis-à-vis the acquired firm.

REFERENCES

Adler, N. (1986) *International Dimensions of Organizational Behavior*. PWS-Kent Publishing Company.

Barney, J. (1988). Returns to Bidding Firms in Mergers and Acquisitions: Reconsidering the Relatedness Hypothesis. *Strategic Management Journal*, 9/5, 71-78.

Bjorkman, I. and Lu, Y. (1999). Guanxi Networks and Job Mobility in China and Singapore. *Social Forces*, 75/3, 981-1005.

Bjorkman, I. Stahl, G.K. and Vaara, E. (2007). Cultural Differences and Capability Transfer in Cross-Border Acquisitions: The Mediating Roles of Capability Complementarity, Absorptive Capacity, and Social Integration. *Journal of International Business Studies*, 38, 658-672.

Braga Lacombe, B.M., Tonelli, M.J. and Caldas, M.P. (2007). IHRM in developing Countries: does the functionalist vs. critical debate make sense south of the Equator? Conference Paper, EGOS conference, sub-theme 33: Critical Approaches to IHRM.

Cartwright, S. and Cooper, C.L. (1996). *Managing Mergers, Acquisitions, and Strategic Alliances: Integrating People and Cultures*, 2nd ed., Oxford: Butterworth Heinemann.

Charman, K. (1998). Joint Ventures in Kazakhstan: Views from Local and Foreign Partners. *Business Strategy Review*, 9/3, 15-20.

Cho, K. and Lee, J. (2004). MNC's Intra-Network Knowledge Sharing. *Management International Review*, 4, 435-455.

David, K. and Singh, H. (1994). Sources of Acquisition Cultural Risk. In G.Krogh, A.Sinatra and H.Singh (eds.) *The Management of Corporate Acquisitions,* Macmillan: Basingstoke, p. 251-292.

Denzin, N. (1978). *The Research Act: A Theoretical Introduction to Sociological Methods,* New York: McGraw-Hill.

Duisenbekov, D, Tholen, J. and Roberts, K. (2002). Post-Soviet Management: Evidence from Kazakhstan. Almaty School of Management. Retrieved February 5, 2006 from www.iaw.uni-bremen.de/~jtholen/post-soviet_management.pdf.

Gilbert, K. (1997). Fly on the Wall or Fly in the Ointment: The Position of the Western Researcher as Observer and Actor in Case Study Research in Anglo-Russian Organizational Partnerships. Conference paper, The 3rd CREEB annual conference 'Central and Eastern Europe in a global economy', 24-25 June.

Goulet, P. and Schweiger, D. (2007). Managing Culture and Human Resources in Mergers and Acquisitions. In Bjorkman, I. and G. Stahl (eds.), *Handbook of Research in International Human Resource Management*, Chetlenham: Edward Elgar.

Hall, E.T. and Hall, M.R. (1990). *Understanding Cultural Differences. Germans, French, and Americans.* Intercultural Press.

Herzberg F. (1966) *Work and the Nature of Man.* New York: The Mentor Executive.

Hofstede, G. (1991). *Cultures and Organizations. Intercultural Cooperation and its Importance for Survival. Software of the Mind.* Harper Collins Business

Holden, N. J. (1996). The Reorientation of Management Language in Russia and Poland in the Transition to the Market Aconomy: A Neglected Perspective. In Somers, H. (ed.), Terminology, *LSP and translation: studies in language engineering in honour of J C Sager*, Amsterdam: John Benjamins Publishing Company, pp. 47-65.

Kanungo, R. and Jaeger, A.M. (1990). Introduction: The Need for Indigenous Management in Developing Countries. In Jaeger, A. and Kanungo, R. (eds.) *Management in Developing Countries,* Routledge.

Laurent, A. (1983). The Cultural Diversity of Western Conceptions of Management. *International Studies of Management and Organization,* 13/1-2, 75 – 96.

Michailova, S. and Hutchings, K. (2006). National Cultural Influences on Knowledge Sharing: A Comparison of China and Russia. *Journal of Management Studies,* 43/3, 383-405.

Minbaeva, D., Hutchings, K. and Thomson, B. (2007). Hybrid Human Resource Management in Post-Soviet Kazakhstan. *European Journal of International Management*, 1/4, 350-371.

Minbaeva, D., Pedersen, T., Bjorkman, I., Fey, C., and Park, H. (2003). MNC Knowledge Transfer, Subsidiary Absorptive Capacity and Knowledge Transfer, *Journal of International Business Studies*, 34/6, 586-599.

Muratbekova-Touron, M. (2002). Working in Kazakhstan and Russia: Perception of French managers. *International Journal of Human Resource Management*, 13/2, 213-231.

Olie, R. 1990. Culture and Integration Problems in International Mergers and Acquisitions. *European Management Journal*, 8/2, 206-215.

Park, S.H., Li, S. and Tse, D.K. (2006). Market Liberalization and Firm Performance during China's Economic Transition. *Journal of International Business Studies*, 37, 127-147.

Ralston, D.A., Terpstra-Tong, J., Terpstra, R.H., Wang, X. and Egri, C. (2006). Today's State-Owned Enterprises of China: Are They Dying Dinosaurs or Dynamic Dynamos? *Strategic Management Journal*, 27, 825-843.

Rugman, A.M. and Jing Li. (2007). Will China's Multinationals Succeed Globally or Regionally? *European Management Journal*, 25/5, 333-343.

Rysbekov, M. (1995). Privatization in Kazakhstan. *Comparative Economic Studies*, 37/3, 1-10.

Sackman, S. (ed.) (1997) *Cultural Complexity in Organizations: Inherent Contrasts and Contradictions.* SAGE Publications Ltd.

Safavi, F. (1997). The Challenge of Management Education and Development in Kazakhstan. *Journal of Management Development*, 16/3, 167-184.

Schneider, S.C. and Barsoux, J-L. (1997). *Managing Across Cultures.* Prentice Hall Europe.

Schweiger, D.M. and Goulet, P.K. (2000). Integrating Mergers and Acquisitions: An International Research Review. *Advances in Mergers and Acquisitions*, 1, 61-91.

Simonin, B.L. (1999). Ambiguity and the Process of Knowledge Transfer in Strategic Alliances. *Strategic Management Journal*, 20/7, 595-623.

Stahl, G. and Voigt, A. (2005). Impact of Cultural Differences on Merger and Acquisition Performance: A Critical Research Review and an Integrative Model. In Cooper, C. and Finkelstein, S. (eds). *Advances in Mergers and Acquisitions*, Oxford: Elsevier Inc., pp. 51-82.

Trompenaars, F. and Hampden-Turner, C. (1998). *Riding the Waves of Culture. Understanding Cultural Diversity in Business,* Nicholas Brealey Publishing, London, Second Edition.

Vaara, E. (2003). Post-Acquisition Integration as Sensemaking: Glimpses of Ambiguity, Confusion, Hypocrisy, and Politicization. *Journal of Management Studies*, 40/4, 859-894.

Wilson, J., Gardner, D., Kurganbaeva, G. and Sakharchuk, E. (2002). The Changing Role of Local Government Managers in a Transitional Rconomy. *International Journal of Public Sector Management*, 15/5, 399-421.

Xin, K.R. and J.L. Pearce. (1996). Guanxi: Connections as Substitutes for Formal Institutional Support. *Academy of Management Journal*, 39/6, 1641-1658.

Yin, R.K. (1994), *Case Study Research. Design and Methods*, Sage Publications.

Zahra, S.A. and George, G. (2002). Absorptive Capacity: A Review, Reconceptualization, and Extension. *Academy of Management Review*, 27/2, 185-203.

Zhang, M. and Edwards, C. (2007). Diffusing 'Best Practice' in Chinese Multinationals: The Motivation, Facilitation and Limitations. *International Journal of Human Resource Management*, 18/12, 2147-2165.

Figure 1: Factors influencing capability transfer in cross-border acquisitions (original figure in Bjorkman et al., 2007)

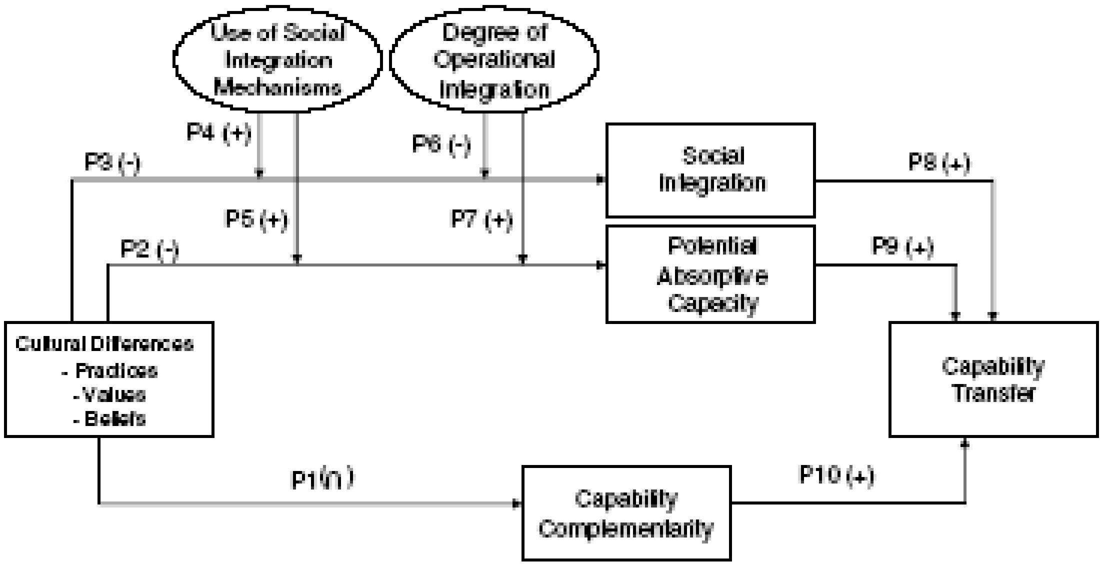

Figure 1: High degree of capability transfer: Hurricane and KazOil

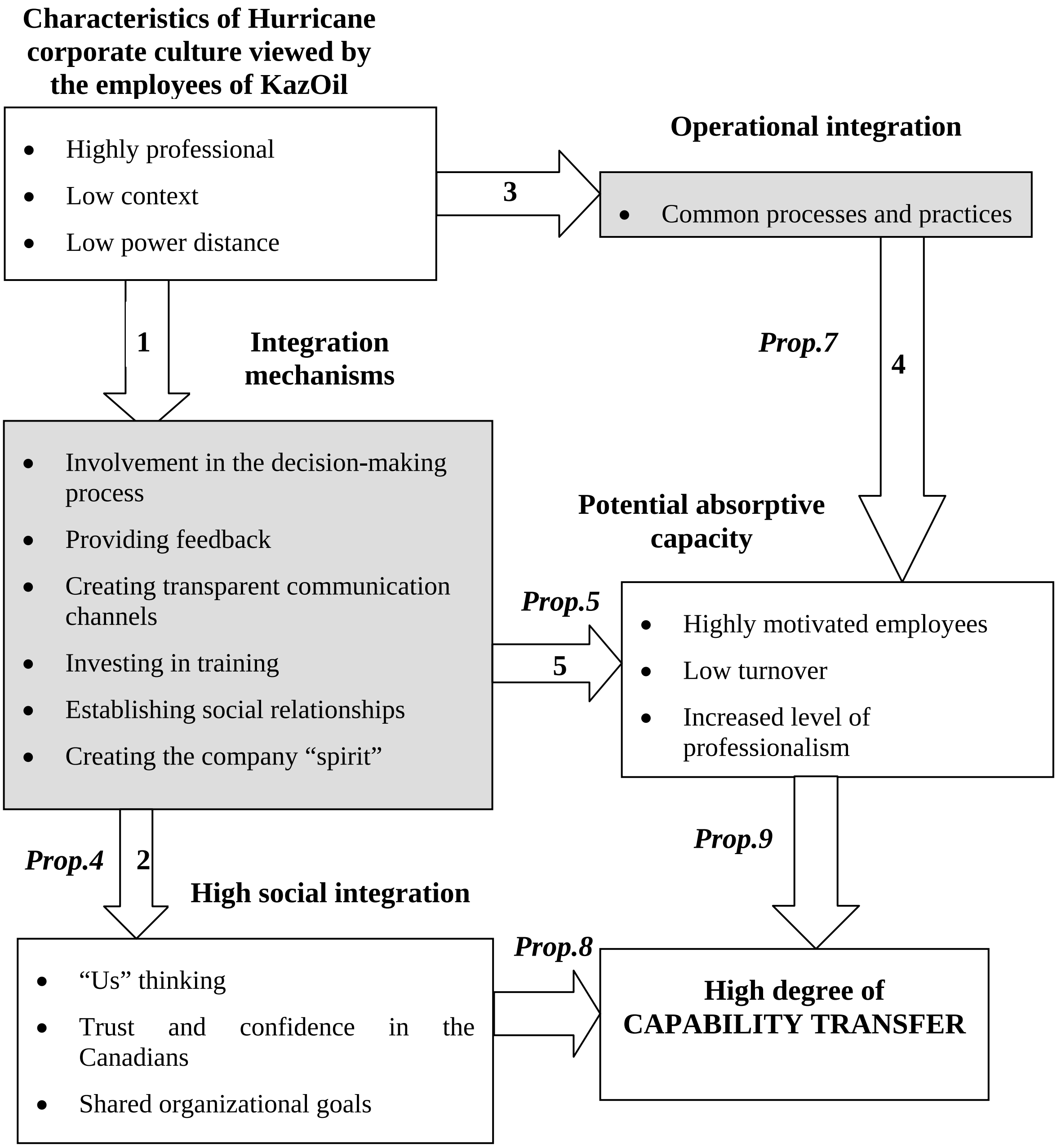

Figure 2: Low degree of capability transfer: CNPC and KazOil

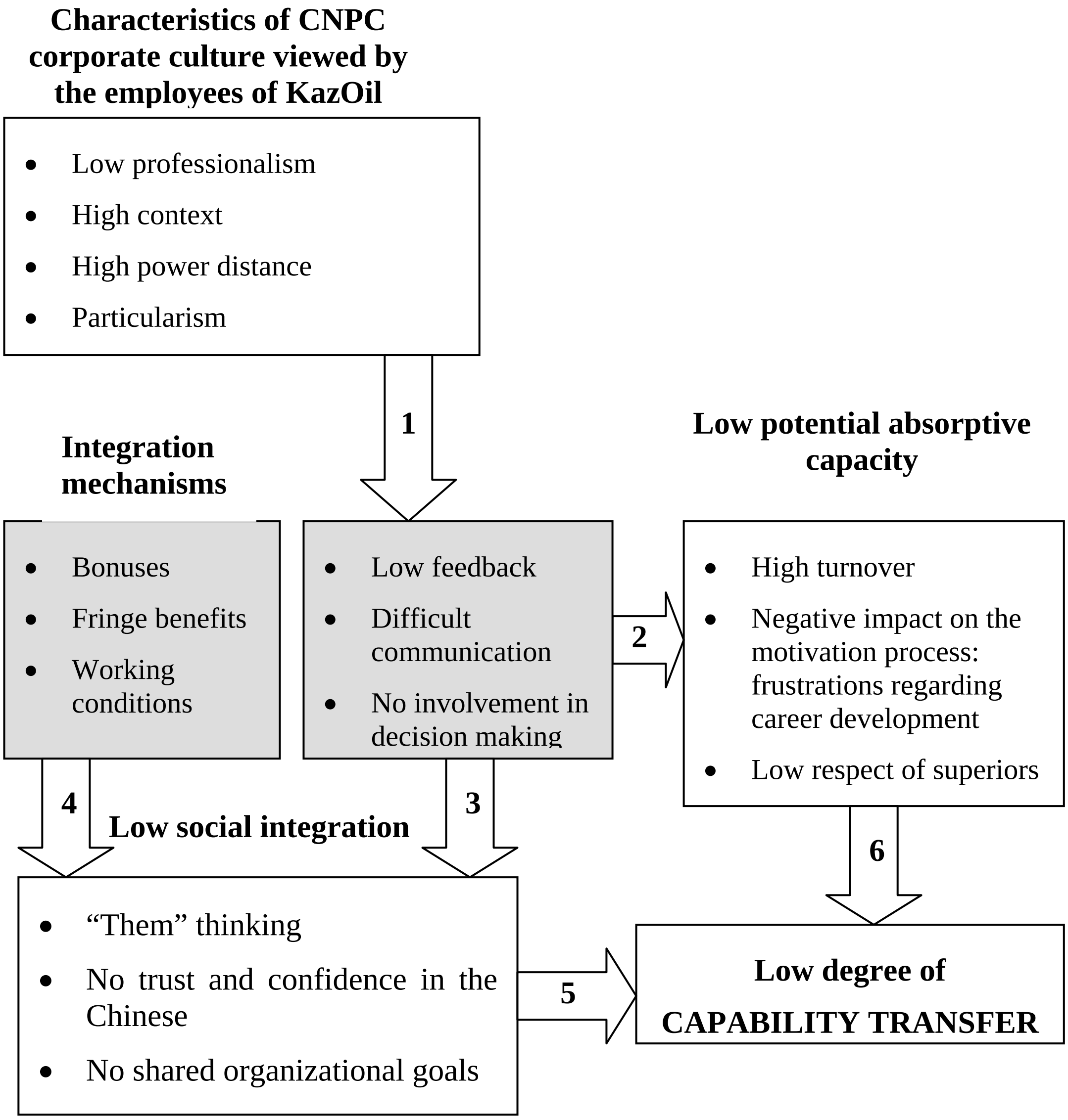

Table 1. Managerial capability transfer: comparison of Canadian and Chinese acquisitions

Managerial capabilities / Acquisition	**Canadian acquisition**	**Chinese acquisition**
Decision making capabilities	Upgraded	Downgraded
Taking initiatives	Upgraded	Downgraded
Dealing with external environment • Government officials • Auditors	 Downgraded Upgraded	 Upgraded Downgraded
HRM capabilities	Upgraded	Downgraded
Managerial finance capability	Upgraded	Downgraded
Leading people	Upgraded	Downgraded