UNIVERSITY of OTAGO

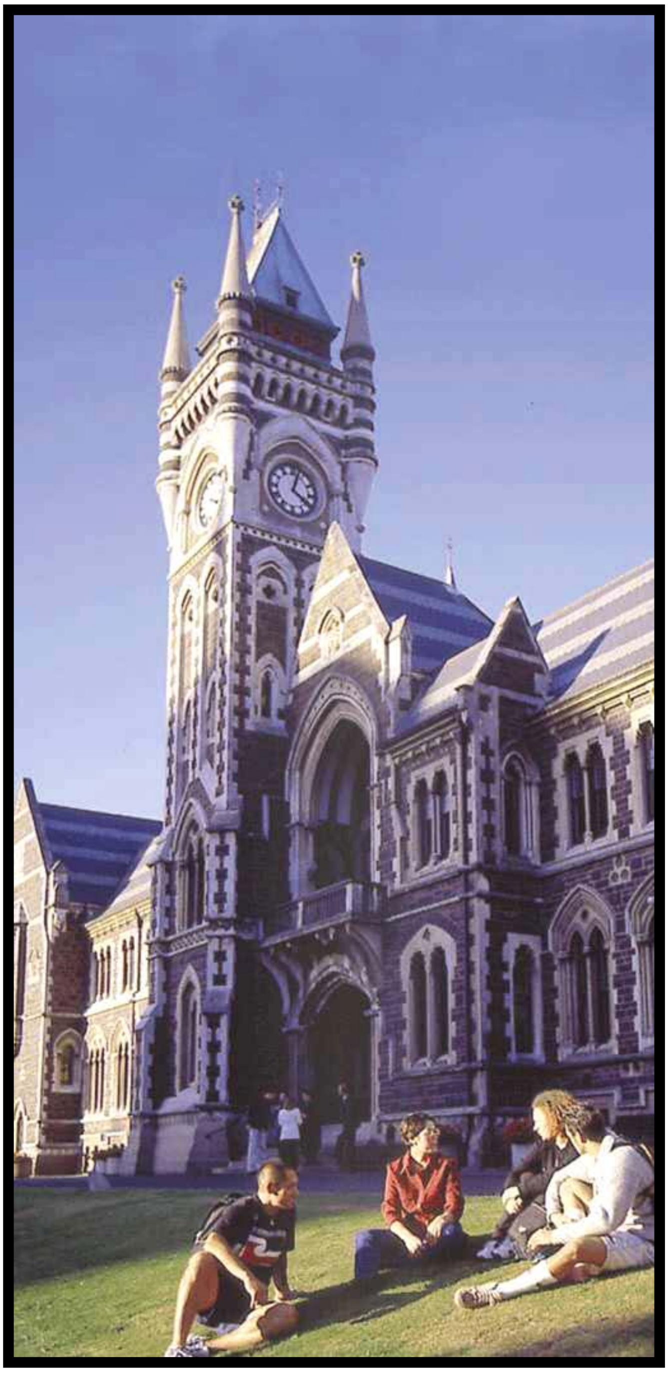
SAPERE AUDE

Te Whare Wānanga o Otāgo

ISSN 1176-4643

OTAGO MANAGEMENT GRADUATE REVIEW

Volume 12
2014



OTAGO MANAGEMENT GRADUATE REVIEW

ISSN 1176-4643
http://www.business.otago.ac.nz/mgmt/research/omgr.html

Published annually by the Department of Management,
University of Otago

Business address: Department of Management
University of Otago
PO Box 56
Dunedin
New Zealand

OTAGO MANAGEMENT GRADUATE REVIEW **Volume 12 2014**

CONTENTS

Editorial i
Alan Geare

The Impact of Five Different Generations Working Side by Side on Innovative Human Resource Management Systems 1
Mike Brummitt

A Critical Review of the Impact of Five Different Generations in the Workplace, and How the HRM Practices of Hiring and Recruitment, Engagement and Flexibility can enhance the Workplace for all these Generations 15
Mike Brummitt

The Influence of Individualistic and Collectivistic Culture on Trust Repair after Trust Violation: The Role of Attribution and Perceptual Affordances 27
Chiedza Chimhundu

A Dynamic Capabilities Approach to Corporate Parenting Strategy 40
Matt Lowe

The Impact of External Cooperation on Innovation Performance in Chinese SMEs 57
Matt Lowe

Merger and Acquisition Performance: A Review of the Literature 81
Thomas McBride

A Western Perspective of Guanxi and its Importance in 21st Century China 95
Thomas McBride

EDITORIAL

This journal is once again proud to publish some of the best pieces of work by graduate management students at the University of Otago.

The articles in this volume were written by students taking 400 level papers for BCom(Hons), Postgraduate Diploma, MBA, MBus (papers plus thesis), MCom (papers plus thesis) or international students crediting to a Master's degree at their home Universities.

Full time honours students took combinations of four 20 point papers, plus a 20,000 word research paper worth 40 points; MBus and MCom students took 20 point papers totalling 120 points, plus a thesis.

All students at this level are free to submit papers for this Review, subject to the supervising staff member having graded the paper at A or A+.

The editorial board each year comprises staff whose students have work represented in the Review.

Alan Geare
Editor

The Impact of Five Different Generations Working Side by Side on Innovative Human Resource Management Systems

Mike Brummit

Introduction

It has been projected that into the future the workforce will change considerably with most workplaces having five generations working side by side. Whilst at the same time it is predicted that 'the war on talent' (Michaels et al. 2001) will also intensify, and attracting and retaining a diverse group of knowledgeable talented workers will become increasing complex and problematic for many organisations. The outcome of these two significant changes is that organisations will need to develop innovative Human Resource Management (HRM) systems that cut across generations while enabling them to retain and attract an age diverse workforce. Whilst the needs and requirements of each generation appear varied and unique the need for work place flexibility appears to provide a common strand. This review will examine the impact innovative human resource practices can have on these five generations, and if flexibility can be utilised to attract and retain talented and knowledgeable workers across five different generations.

Innovative HRM Systems and their Impact

The business environment of today is forcing organisations to be responsive, agile and adaptable to dynamic market driven opportunities (Sharp et al. 2000). White (1996) states that over 75% of all companies in existence today will not be around in 60 years' time, because they will have been taken over, merged, bought out, gone bankrupt or have gone into liquidation. As these organisations look to compete in an environment of increased global competition, rapid technological change and sustained competitive advantage, they must find better ways to leverage their human capital (Wright & Snell 2005). In fact most companies today, more than ever, recognise that established avenues of competitive advantage, such as quality, technology and the like have become easier to imitate and the subtleties surrounding the development of a high performance workforce remain a significant unrealised opportunity for many organisations (Becker & Huselid 1998). Subsequently innovative HRM has assumed an intrinsic role in creating sustained competitive advantage as organisations compete through developing their human capital to become valuable, rare inimitable and organised (Bateman and Snell 2008).

The way in which we manage our most valuable assets, to gain that competitive advantage can be enhanced and closely linked to innovative human resource management practices. Innovative human resource management practices are also referred to as high commitment / high involvement practices or bundles (Pfeffer 1994), progressive HR Practices (Huselid 1995) and quality HR (Huselid 1994). Innovation and human

This assignment was for MANT431 Advanced Human Resource Management
Supervised by Dr Paula O'Kane

resource management can be viewed together as a strategic and integrated field contributing to the organisation as a whole, and related to all kinds of dynamics inside and outside of the organisation (De Leede et al. 2005). There are a number of innovative HRM practices such as the development of a skilled and creative workforce, building high performance teams, management of creative professionals, diversity, leadership, and rewards (Angle 2000; Katz 1997; Tidd et al. 1997). The innovative human resource practices have been shown to positively impact on employee performance by enhancing the employees' skills, motivation and opportunities to contribute (Jiang et al. 2012), as well as creating lower turnover, fewer absences, better job performance and organisational citizenship behaviour (Yousef 2000; Diefendorff et al. 2002). An effective people management strategy which increases employee engagement has been shown to lead to an increase in profitability for an organisation (Rayton 2012). The outcomes for the organisation are increased productivity, quality, profit, return on investment and customer satisfaction (Guest 1997). For organisations to achieve exceptional performance every process that touches a human resource must be aligned with the stated values, goals and strategies of the organisation (Miller 2009). Consistently successful companies have strong alignment between business strategy and internal elements including skills and style of staff, leadership style, structure and systems (Holbeche 2007). As the world of business rapidly moves on it is also crucial that the evolving innovative HR role is also moving swiftly to become a core business leadership role, in which HR's own contribution is to ensure that the organisation is equipped for success, now and in the future (Holbeche 2009).

Five Different Generations of Workers

A generation has been defined as a group or cohort that share historical or social life experiences that distinguish them from one another (Jurkiewicz & Brown 1998). It has been projected that into the future the workforce will change considerable with most workplaces having five generations working side by side. Whilst there have been numerous categorisations of the different generations (Smola and Sutton 2002), we have chosen the US department of Consensus 2007 definition namely: Traditionalist, born before 1946; Baby Boomers, born between 1946 and 1964; Generation X, born between 1965 and 1976; Millennials, born between 1977 and 1997; and Generation 2020, born after 1997.

A number of characteristics and behaviours have been associated with each generation which has led to conclusions on how they may or may not behave in the workplace. Traditionalists are identified as being very loyal, they consistently perform well, and have a strong work ethic along with conservative financial views. They put what is deemed best for the organisation, before what they deem best for themselves (Macon & Artley 2009). Baby Boomers strongly believe in lifetime employment, company loyalty and paying one's dues to gain respect and seniority (Elsdon & Lyer 1999). Generation X does not have the same strong organisational loyalty as previous generations (Herman et al. 2003). They will remain with an organisation as long as it does not impinge on their personal lives or family time. This work life balance is so important to them that if it is not right they will go (Karp et al. 2002). Millennials are seen to be highly optimistic, expecting and demanding instant feedback. They are perceived to have poor communication and problem solving skills. They view their career path much more individually and are highly prone to shifting positions and organisations to find something that suits them. They speak their minds unconcerned with hierarchy or consequences. Being immersed in technology has changed their thought patterns, as compared to former generation (Macon & Artley 2009; Sacks 2006). As Generation 2020 has not yet entered the work force there is little literature on their characteristic or how they may behave within the workforce. What we do know however is that Generation 2020 have grown up using technology as part of their lives and they will expect employers to provide them with the same tools they utilise in their personal lives. They are smarter, quicker and more tolerant of diversity than previous generations and care strongly about justice and the problems faced by society (Tapscott 2009).

With the workforce becoming more age-diverse and overlapping, HRM has begun to explore both the positives and negative effects for organisations. As with other changes in diversity, there is usually what has been coined as a 'double edge sword" effect (Horwitz & Horwitz 2007). On the one hand a work force with many generations should contain a mixture of different, complementary skills and experiences which should lead to increased innovation, creativity and productivity. Whilst on the other there is the potential for discrimination which could result in a number of negative side effects. Diversity has been seen as a competitive advantage because minority views can stimulate consideration of non-obvious alternatives in task groups (Cox & Blake 1991) and heterogeneous teams have been shown to be more creative than homogenous teams (Hambrick et al. 1996). But Timmerman (2000) argued that groups of dissimilar ages would be less productive as a result of conflict and lack of cooperation caused by the stereotyping of the different groups, in addition there was a positive correlation between age diversity and turnover (Jackson et al. 1991; Wagner, Pfeffer & O'Reilly, 1984).

HRM Practices for Different Generations

Many organisations in today's business world are already compromised of four different generations of employees with an age range that spans in excess of 60 years (Macon & Artley 2009). Sacks (2006) suggests that if businesses do not address this generational conflict they are subjecting themselves to lower productivity, higher turnover and frustrated employees, which will ultimately lead to reduced profits. Sacks went on to state that managers will be challenged to maximise the assets of distinct sets of work values and styles simultaneously. A lot of the debate is centred on the view that these different generations have different work ethic, values, motivators, work-life balance, priorities, attitudes, approaches, interaction styles and expectations and that these differences need to be addressed differently to effectively manage the entire workforce. Houlihan (2008) argued that it is imperative to change your management style for each generation. As a result of each generation having a different values system, you need to put your values aside and manage the individual according to theirs. This is supported by Aronoff (2006) who notes that the HRM approach, throughout an employee's cycle needs to be tailored to their values and beliefs. That when organisations consider their strategies for attracting, recruiting, orientating and retaining that they develop these strategies with separate generations in mind. That if you can separate each generation in terms of their values, attitudes and their needs depending on those values and stage of life you can have a series of HR strategies that can pinpoint different generations and applied separately based on generation will get the best out of the workforce as a whole. If you understand those different generations and employ different strategies to those employees in those groups, you can give them what they need to thrive and as a result increase productivity, morale and employee retention (Kogan 2007). Failure to understand these generational differences may cause negative effects such as tension, diminished levels of job satisfaction and corporate citizenship, reduced productivity and higher turnover (Kupperschmidt 2000).

There has, however, been growing research which supports the opposite. It would seem to be obvious that actually all employees would like to be treated as an individual, and not have assumptions immediately made about what they may or may not want, or about their values system based on the year that they were born. Hudson (2008) warned against ‘falling prey to the stereotyping as offered by the popular press’. That we need to treat individuals as individuals according to their own attitudes, competencies and performance rather than being tempted to categorise people and put them in boxes. Whilst there is a gap in the research it also seems logical again that there are certain organisational traits that would appeal to any generation, for example one that is ethical and professional and achieves meaningful outcomes. In addition organisations that value and respect their employees regardless of their generation would be rewarding for all employees. This perspective could be taken further in the sense that all employees, across the generations would find value in flexible working hours, enhanced remuneration and some form of reward and recognition, based individually on their preferences. Indeed Wesner & Miller (2008) stated, “Stereotypes associated with the generational cohorts currently in the workplace fail to hold up to closer scrutiny and that the motivation of workers, no matter the generation they belong to, has been remarkably stable over time” (p.89). Workers of different generations are working together extremely well, taking advantage of their different perspectives and skills to get the job done more effectively and learn from each other in the process (DiRomualdo 2006). As opposed to separating the different generations and applying different HR policies to each generation Wagner (2007) stated that all employees, regardless of their generation have something to offer and brings something really important to the workplace. That if you absorbed the generations together you would have much happier and productive workers. Giancola (2006) summed this up nicely when he suggested that HR professionals should consider the generation gap as an idea based more on myth than reality and in fact a generational approach may be more popular culture than social science. What can be agreed, however, is that flexible work arrangements do enable organisations to attract, retain and engage employees from across the generations (Eversole et al. 2012),

Flexibility for Each Generation

Workplace Flexibility 2010 defines a "flexible work arrangement" as any one of a spectrum of work structures that alters the time and/or place that work gets done on a regular basis. A flexible work arrangement includes: flexibility in the scheduling of hours worked, such as alternative work schedules (e.g., flex time and compressed workweeks), and arrangements regarding shift and break schedules; flexibility in the amount of hours worked, such as part time work and job shares; and flexibility in the place of work, such as working at home or at a satellite location. Generally the literature refers to a number of practices which make up this definition which include part time working, term time working, working from home, job share, compressed hours (e.g. 4 day weeks), career breaks sabbaticals and mobile working. Pettinger (2002) concisely summarises flexible working as the ability to employ people when and where required in the interests of everyone. Flexibility is also often discussed under the general banners of work - life balance or work - family initiatives.

The literature shows an increasing awareness of the advantages of workplace flexibility which includes increased performance, increased employee commitment and increased cost effectiveness (Dex & Smith 2002) and that regardless of workforce demographics or industry flexibility increases morale and productivity (Beekman 2011). The Chartered Institute of Personnel and Development (CIPD) 2012 survey have reported that seven out 10 employers correlate flexible working hours to increased retention, motivation and engagement. Almost two thirds of employers believe flexible working supports their recruitment activities, while half believe it has a positive impact on reducing absence as well as on boosting productivity. From the employees perspective flexible working is linked to higher levels of employee engagement and well-being. The CIPD 2012 survey goes on to report that employees satisfied with their work life balance are more likely to be engaged and less likely to say they are under excessive pressure. In addition Haar (2004) concluded that work family conflict was a predictor of turnover. Indeed Anderson et al. (2002) have argued that poor flexibility and work life conflict has forced employees to leave their employment. In addition when considering to stay in work or to return to the workplace both older and younger employees have cited that the organisations willingness to accommodate their needs for flexible work schedules or part time employment have a major bearing on that decision (Montenegro et al. 2002). What is clear is that organisations are becoming far more aware of the need to incorporate flexible work arrangements to remain competitive. Factors such as globalization and new technologies have been responsible in bringing about 24/7 workplaces; a blurring of the distinction between work and home; a continuous re-engineering of business processes; and continuous change in the nature of work and in the characteristics of the workforce and in response, workplaces are necessitating a change in flexible working practices (Chandra 2012).

Along with this increasing awareness it has been argued that flexibility is the one thing that people of all generations want, and they want more of it (Beekman 2011). Montenegro et al. (2002) identified that Traditionalists, were increasingly sighting nonfinancial reasons for not retiring. The study identified that the availability of flexible work arrangements to meet family demands and to provide more leisure time was an important factor in them remaining in the workforce. Indeed the availability of flexible work hours and schedules and the availability of part time employment seemed to be most important to older workers (Rau & Adams 2005). Baby Boomers have moved away from the preconceived ideas that once you reach the retirement age you stop working forever and that retirement doesn’t have to be permanent. There has been a move away from this traditional life cycle (Erikson et al. 1986), towards an attitude that work and retirement are more cyclical than linear. What Baby Boomers want is a more flexible approach (Atchley & Barusch 2004) to remaining in, leaving or re-entering the workforce depending on their life course (events happening within their life) as opposed to their life cycle (what they are expected to do at a certain time in life). Rocco et al. (2003) describe Boomers as entering a third age in their careers as opposed to retiring, ‘the workspace becomes a dynamic space for older workers, work becomes a search for continued meaning and contribution and older workers might make the decision to remain in, retire from or return to periods of part-time, full time or seasonal or holiday work’. Increasingly Baby Boomers want to be able to continue to perform meaningful work where they can contribute their skills and knowledge, contribute to societal goals, to have something enjoyable to do and to stay physically active (Montenegro et al. 2002). They consider flexible working practices as a way to achieve this. Conversely employers are recognising the importance of retaining Baby Boomers, and trying to hold some of that experience within their organisations, whist future generations mature and come up to speed. Employers are introducing phased retirement plans to encourage flexibility for this generation so those who would like to, can continue working (Kelly et al. 2008).

It has been stated that Generation X are more concerned with flexible work arrangements than they are about salary or assignment (Krug 1998). That a balanced lifestyle is critical to them and they will demand time for themselves, their families and community service. Karp et al. (2002) concisely summarised the difference in attitude between Baby Boomers and Generation X’s in that, “Boomers believe that by working hard and providing nice things for their families, they are putting their families first. For Generation X, putting family first means being there, Period”. Sullivan et al. (2009) supported this view in reporting that those from Generation X assign a higher need for balance than Boomers. Howe et al. (2000) made the observation that whilst those from Generation X value a strong work life balance, personal values and goals are likely to be regarded as more important than work related goals. Generation X has always been considered to be more independent than the generations before them, and more likely to change jobs in order to improve their skills and get what they want. It is in Generation X that we see the first hint of work-life balance and the demand for flexible working practice that this brings, coming into the workplace (Macon & Artley 2009).

If Generation X was more concerned with flexible work arrangements and was the initial generation to introduce such practices then it was the Millennials who fully embraced the concept and started demanding it. This generation do not want to be slaves to their jobs like their perception of their Boomer parents and insist on a greater work-life balance Gilburg (2008). Whilst making money tends to be less important to Millenials, it is meeting personal goals, contributing to society, parenting well and enjoying a full balanced life which is the focus (Eisner 2005). More than any generation before, they consider job satisfaction to be a positive work climate, flexibility and the opportunity to learn and grow (Behrens 2009). As a result employers have treated Millennials more as individuals than any other generation (Simons 2010) and placed a much more visible emphasis on work-life balance (Armour 2005).

If Millenials embraced the concept of flexible work arrangements then it is going to be Generation 2020 which will propel the concept to levels previously unseen. Tapscott (2008) identified a number of requirements crucial to Generation 2020 in the workplace, and central to them are that they want freedom in everything they do, from freedom of choice to freedom of expression, they want to customise and personalise experiences, find entertainment in their work, education and social lives, innovate and look for innovative ways to collaborate, entertain themselves, learn and work.

It appears clear that for organisations to attract, retain, and engage all their employees across the generations that an innovative HRM approach to flexibility would be of considerable value (Eversole et al. 2012). From the literature it is not so much that anyone would disagree with this statement, it is in the way that flexible work practices are perceived and defined. As a construct and a practice all generations have been shown to value flexibility and want it incorporated into their work. It is crucial, however, that we move away from traditional perceptions that flexible working practices are designed for parents in the workplace (Brewster et al. 1994) and that its application is different for each generation. Traditionalists are looking for flexibility to gradually exit the work force and not be suddenly retired. This will involve work practices that enable them to be able to start later, finish earlier, take extended breaks at short notice, and return on equally short notice when they are ready (Stein et al. 2000). This will enable organisations to retain a wealth of knowledge and individuals to give back, remain engaged and stay active. In a similar vein Baby Boomers want the flexibility to work later into life, but also spend more time pursuing leisure, family and non-work related activities (Montenegro et al. 2002). This again enables organisations to retain this knowledge and leadership capabilities whilst those Baby Boomers mentor and develop the generations coming through. Generation X wants those flexible work practices to enable them to blend work life and home life together. So they can specifically have a work family balance, and be there for their children and have that discrete time away from work. They want this time, however when it suits their families and themselves which will likely be inside the hours of the traditional working week of Monday to Friday and traditional hours of 9:00am – 5:00pm (Karp et al. 2002). Interestingly Millenials, as we have summarised are the first generation where flexibility will be an expectation. They will value variable work schedules and extended leave which will enable them to travel or study (Beekman 2011). They will no longer, like Generation X, look to balance out work life and home, and have that discrete time apart, but view them as the same where work is an extension of leisure and vice versa. Organisations that can grasp the concept that Millenials are going to want the flexibility to choose where to work, when to work and how to work (Hines 2011) will be those organisations that survive and thrive into the future.

For Flexible HRM Practices to be Adopted, What Needs to Happen?

We have discovered that workplace flexibility is a HRM practice that all five generations would benefit or indeed demand. That it is considered crucial in attracting, engaging and retaining highly talented and knowledgeable workers to an organisation, and therefore giving that organisation a considerable competitive advantage. If it is considered that logical then it raises the question of why every organisation has not adopted an overarching practice of flexibility and enabled the different generations to pick and choose those elements that suit and work for them. Interestingly it appears that most organisations recognise the importance and have made allowances for flexible working practices, but the different generations don't gain the full benefits of these policies due to their poor implementation. Many organisations offer formal policies but do little to support them in the work culture (Bunch 2007) thereby making the use of them by employees uncomfortable and problematic (Jacobs et al. 2004). Whilst organisations have changed their policies to accommodate flexible working practices the culture and perception of employers and employees still make the full benefits and availability difficult to access. Employees do not engage in, or request flexible working because of the perception that it will damage their career prospects (Hopkins 2005), whilst employers still have the notion that flexible working practices should be designed to accommodate the needs of individuals as opposed to a strategic aspect of the way they go about their business (Halpern 2005). A perception remains that if an employee asks for flexibility then that represents a lack of commitment to both the organisation and to their career. That if employees engage in flexible work practices, to achieve and enjoy a better balance, then this is at the expense of the organisations profits and productivity (Friedman et al. 1998).

Instead of organisations focusing their energies on flexible working policies and practices, they would be better making a commitment to changing the culture within their organisations and the attitudes of the supervisors who implement the policies and set that culture. The real family-friendly issues are time, flexibility, balance, respect and commitment, which cannot be addressed by programs because they require fundamental cultural change (Bankert & Googins 1996). There are numerous references to the importance of the supervisor or frontline managers, in their understanding, support and communication to the success of employees work / family balance (Anderson et al. 2002). Frontline management are overly concerned with the concept that employees are not able to accept responsibility for their work, family and life balance and those employees will be overly concerned with issues of inequity and unfairness, and in creating precedents resulting in too many complications, variation and demand (Bailyn 1993). Compounding these issues is the remnants of the belief that actually it is not the responsibility of management to interfere in employees 'private' life's, they have no experience in implementing a work life balance culture (Friedman 1987), and when all said and done flexible working practices damage the bottom line as the more hours you work has a direct correlation to your productivity (Rodgers 1992). The problems with these cultural changes to allow flexible working practices run deeper, however, with Makavey et al. (1998) noting that what frontline managers fear in the introduction of such practices is the loss of control, influence and authority that they have over their employees.

Conclusion

In response to an increasingly innovative, dynamic and competitive environment, organisations are realising that a sustainable competitive advantage can only be achieved through acquiring and maintaining idiosyncratic resources which are rare, difficult to imitate and non-substitutable (Barney 1991). That their most special and important resource are their personnel, who are in fact their only real source of core competence (Prahalad & Hamel 1990) and thus of continuing competitive advantage. As a result innovative HRM is now regarded as vital to organisational strategy; in organising and executing efficiencies to reduce costs whilst maintaining quality, is a ‘champion for employees’ and an agent of continuous transformation, shaping processes and a culture that together improve an organisation’s capacity for change (Ulrich 1998). The outcomes of this innovative HRM are a committed workforce, working in harmony with the objectives of the organisation and achieving competence and cost effectiveness (Beer et al. 1984).

In addition to the evolving business environment, is the introduction of five generations working side by side for the first time. Opinions and articles have examined similarities and differences and often identified a ‘generational gap’ (Chen & Choi 2008), and whilst some argue that individual HRM strategies need to address each generation (Gibson et al. 2009; Sullivan et al. 2009), others have focused on the combined needs of the work force, and employees should be treated as individuals, with individual needs, likes and dislikes and not bunched together in the years they were born (Hudson 2008). That the role of HRM is to have overarching practices and allow individuals to adapt them to personal preferences. The introduction of flexible working arrangements would seem to support this view, as it has been shown to increase morale and productivity regardless of workforce demographics (Beekman 2011). That whilst the different generations may customise the flexibility offered in different ways, balanced lifestyle, family time, part time, flexible work schedules, sabbaticals etc., they would all find a flexible approach to be of considerable value (Eversole et al. 2012).

Whilst we concluded that flexible work arrangements enable organisations to attract, retain and engage employees from across the generations (Eversole et al. 2012), there were a number of practises which hindered the effectiveness. A work culture that makes utilising these practices problematic and uncomfortable for employees (Bunch 2007; Jacobs et al. 2004), and a perception that they will damage their careers prospects (Hopkins 2005). Further to this is an organisational perspective that flexible work arrangements are a compromise to employees at the expense of the organisation (Friedman et al. 1998; Halpern 2005). To counter this perception, what is required is for organisations to focus on changing its culture (Bankert & Googins 1996), by ensuring their frontline managers understand that that this is a strategic objective and a process to be embraced and managed, not feared as they lose control, influence and authority (Makavey et al. 1998).

In addressing the issue of poor implementation and uptake of flexible working practices for all generations, it can be bought back to the common strand mentioned earlier that employers still have the notion that flexible working practices should be designed to accommodate the needs of individuals as opposed to a strategic aspect of the way they go about their business (Halpern 2005). If organisations shifted their focus from addressing different generations, and individuals within those generations to a strategic systematic review of the benefits of flexible working practices and the outcomes of healthier employees and better families, an ability to attract, engage and retain different employees across different generations, then a cultural shift would gather momentum. It is important that there is a recognition that this shift will provide organisations with a competitive advantage. Flexibility is an investment that brings returns (Friedman & Greenhaus 2000), that increases job satisfaction, organizational commitment and intensification of work effort (Kelliher & Anderson 2010) across all generations.

References

Anderson, S. E., Coffey, B. S., & Byerly, R. T. (2002). Formal organizational initiatives and informal workplace practices: Links to work-family conflict and job-related outcomes. *Journal of Management, 28*, 787–811. doi:10.1177/014920630202800605

Angle, H. L. (2000). *Psychology and organizational innovation. Research on the management of innovation. The Minnesota studies.* Oxford: Oxford University Press.

Armour, S. (2005). *Money news: Financial, economy, stock market & real estate stories* - USATODAY.com. Retrieved March 2014, from http://www.usatoday.com/money/workplace/2005-11-06-y_x

Aronoff, R. (2006). 'Across the divide': What motivates the different generations that make up your workforce. *US Business Review, 7*(6), 6–7.

Atchley, R. C., & Barusch, A. S. (2004). *Social forces and aging: An introduction to social gerontology.* Belmont, CA: Wadsworth/Thompson Learning.

Bailyn, L. (1993). *Breaking the mould: Women, men and time in the new corporate world.* New York, NY: The Free Press.

Bankert, E. C., & Googins, B. K. (1996). Family-friendly: Says who? *Across the Board, 33*(7), 45–49.

Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*, 99–120.

Bateman, T., & Snell, S. (2008). *Management: Leading and collaborating in the competitive world*. New York: McGraw-Hill/Irwin.

Becker, B., & Huselid, M. (1998). High performance work systems and firm performance: A synthesis of research and managerial implications. *Research in Personnel and Human Resources Management, 16,* 53–101.

Beekman, T. (2011). Fill in the generation gap. *Strategic Finance, 93*(3), 15–17.

Beer, M., Spector, B., Lawrence, P., Quinn-Mills, D., & R. W. (1984). *Managing human assets.* New York: Free Press.

Behrens, W. (2009). Managing millenials. *Marketing Health Service, 29*(1), 19–21.

Brewster, C., Hegewisch, A., & Mayne, L. (1994). Flexible working practices: The controversy and the evidence. *Policy and Practice in European Human Resource Management,* 168–193.

Bunch, K. J. (2007). Training failure as a consequence of organisational culture. *Human Resource Development Review, 6,* 142–163.

Bureau of Labor Statistics. (2007). *US Census*. Retrieved from http://www.bls.gov.

Chandra, V. (2012). Work life balance: Eastern and Western perspectives. *The International Journal of Human Resource Management, 23*(5), 1040–1056.

Chen, P., & Choi, Y. (2008). Generational differences in work values: A study of hospitality management. *International Journal of Contemporary Hospitality, 20*(6), 595–615.

CIPD (2012). *Flexible working provision and update.* Retrieved from London: CIPD website: https://www.cipd.co.uk/hr-resources/survey-reports/flexible-working-provision-uptake.aspx

Cox, T. H., & Blake, S. (1991). Managing cultural diversity: Implications for organizational competitiveness. *Academy of Management Executive, 5,* 45–56.

Dex, S., & Smith, C. (2002). *The nature and patterns of family-friendly employment policies in Britain.* Bristol: The Policy Press.

Diefendorff, J. M., Brown, D. J., Kamin, A. M., & Lord, R. G. (2002). Examining the roles of job involvement and work centrality in predicting organizational citizenship behaviors and job performance. *Journal of Organizational Behaviour,* 93–108.

DiRomualdo, T. (2006). Viewpoint: geezers, grungers, genXers, and geeks: A look at workplace generational conflict. *Journal of Financial Planning, 19*(10), 18–21.

Eisner, S. P. (2005). Managing Generation Y. *Sam Advanced Management Journal, 70*(4), 4–15.

Elsdon, R., & Lyer, S. (1999). Creating value and enhancing retention through employee development: The sum microsystems experience. *Human Resource Planning, 22*(2), 39–48.

Erikson, E. H., Erikson, J. M., & Kivnick, H. Q. (1986). *Vital involvement in old age.* New York, NY: Norton.

Eversole, B. A., Venneberg, D. L., & Crowder, C. L. (2012). Creating a flexible organizational culture to attract and retain talented workers across generations. *Advances in Developing Human Resources, 14*(4), 607–625. DOI: 10.1177/1523422312455612

Friedman, S. D., & Greenhaus, J. H. (2000). *Work and family - Allies or enemies? What happens when business professionals confront life choices.* Oxford: Oxford University Press.

Friedman, S. D., Christensen, P., & DeGroot, J. (1998). Work and life: The end of the zero-sum game. *Harvard Business Review, 76*(6), 119–129.

Friedman, D. E. (1987). *Family supportive policies: The corporate decision making process.* New York, NY: The Conference Board.

Georgetown University Law Centre (2010). *Workplace Flexibility 2010.* Retrieved March 2014, from http://www.workplaceflexibility2010.org

Giancola, F. (2006). The generation gap: More myth than reality. *Human Resource Planning, 29*(4), 32–37.

Gibson, W. J., Greenwood, A. R., & Murphy Jnr, F. E. (2009). Generational differences in the workplace: Personal values, behaviours and popular beliefs. J*ournal of Diversity Management, 4*(3), 1–7.

Gilburg, D. (2008). They're gen y and you're not. *CIO, 21*(8), 40–43.

Guest, D. E. (1997). Human resource management and performance: A review and research agenda. *International Journal of Human Resource Management, 8*(3), 263–276.

Haar, J. M. (2004). Work-family conflict and turnover intention: Exploring the moderation effects of perceived work-family support. *New Zealand Journal of Psychology, 33*(1), 35–39.

Halpern, D. F. (2005). How time-flexible work policies can reduce stress, improve health, and save money. *Stress and Health, 21,* 157–168.

Hambrick, D. C., Cho, T. S., & Ming-Jer, C. (1996). The influence of top management team heterogeneity on firms' competitive moves. *Administrative Science Quarterly, 41*(4), 659–684.

Herman, R. E., Olivo, T. G., & Gioia, J. L. (2003). *Impending crisis: Too many jobs too few people.* Winchester, VA: Oakhill Press.

Hines, A. (2011). A dozen surprises about the future of work. *Employment Relations Today, 38*(1), 1–15. Retrieved from DOI:10.1002/ert.20326

Holbeche, L. (2007). Building high performance - the key role for HR. *Impact: Quarterly Update on CIPD Policy and Research, 20*, 10–11.

Holbeche, L. (2009). Managing change in difficult times. *Legal Information Management, 9*(04), 253–256. doi:10.1017/S1472669609990508

Hopkins, K. (2005). Supervisor support and work-life integration: A social identity perspective. In E. E. Kossek & S. J. Lambert (Eds.), *Work and life integration: Organisational, cultural, and individual perspectives* (pp. 445-467). Mahwah, NJ: Lawrence Erlbaum Associates.

Horwitz, S. K., & Horwitz, I. B. (2007). The effects of team diversity on team outcomes: A meta-analytic review of team demography. *Journal of Management, 33*, 987–1015.

Houlihan, A. (2008). The new melting pot. *Construction News, 75*(2), 8–9.

Howe, N., & Strauss, W. (2000). *Millenials rising: The next generation*. New York, NY: Vintage Books.

Hudson (2008). *The generational mirage? A pilot study into the perceptions of leadership by Generation X and Y.* In 20:20 Series. Hudson, Auckland, NZ.

Huselid, M. A. (1994). Documenting HR's effect on company performance. *HR Magazine*, January, 79–85.

Huselid, M. A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal, 38*, 635–672.

Jackson, S. E., Brett, J. F., Sessa, V. I., Cooper, D. M., Julin, J. A., & Peyronnin, K. (1991). Some differences make a difference: Individual dissimilarity and group heterogeneity as correlates of recruitment, promotions and turnover. *Journal of Applied Psychology, 76*, 675–689.

Jacobs, J. A., & Gerston, K. (2004). *The time divide: Work, family and gender inequality*. Cambridge, MA: Harvard University Press.

Jaing, K., Lepak, D. P., Han, K., Hong, Y., Kim, A., & Winkler, A. (2012). Clarifying the construct of human resource systems: Relating human resource management to employee performance. *Human Resource Management Review, 22*(2), 73–85.

Jurkiewicz, C. L., & Brown, R. G. (1998). Generational comparisons of public employee motivation. *Review of Public Personnel Administration, 18*(4), 18–37. doi:10.1177/0734371X9801800403

Karp, H., Fuller, C., & Sirias, D. (2002). *Bridging the Boomer-Xer gap: Creating authentic teams for high performance at work,* Palo Alto. CA: Davis-Black.

Katz, R. (1997). *The human side of managing technological innovation. A collection of readings.* Retrieved from Oxford University Press, New York.

Kelliher, C., & Anderson, D. (2008). For better or for worse? An analysis of how flexible working practices influence employees' perceptions of job quality. *International Journal of Human Resource Management, 9*(3), 419–431. doi:10.1080/09585190801895502

Kelly, E. L., Dahlin, E. C., Spencer, D., & Moen, P. (2008). Making sense of a mess: Phased retirement policies and practices in the United States. *Journal of Workplace Behavioral Health, 23,* 147–164. doi:10.1080/15555240802189547

Kogan, M. (2007, March). Human resources management: Bridging the gap. Government Executive: Human Resources Management. Accessed from http://www.govexec.com/magazine/magazine-human-resources-management/2001/09/bridging-the-gap/9752/

Krug, J. (1998). Understanding Generation X. *Journal of Management in Engineering, 14*(6), 18. doi:10.1061/(ASCE)0742-597X(1998)14:6(18)

Kupperschmidt, B. R. (2000). Multi-generation employees: Strategies for effective management. *The Health Care Manager, 19*, 65–76.

Leede, J. D., & Looise, J. K. (2005). Innovation and HRM: Towards an integrated framework. *Creativity and Innovation Management, 14*(2), 108–117. doi:10.1111/j.1467-8691.2005.00331.x

Mackavey, M. G., & Levin, R. J. (1998). *Shared purpose: Working together to build strong families and high-performance companies.* New York, NY: AMACOM.

Macon, M., & Artley, J. (2009). Can't we all just get along? A review of the challenges and opportunities in a multigenerational workforce. *International Journal of Business research, 9*(6), 90–94.

Michaels, E., Handfield-Jones, H., & Alexrod, B. (2001). *The war for talent.* Boston: Harvard Business School Press.

Miller, A. (2009). *Strategically aligned human resources.* Vienna: Human Capital Perspectives.

Montenegro, X., Fisher, L., & Remerez, S. (2002). *Staying ahead of the curve: The AARP work and career study conducted for AARP by Roper ASW*. Washington, DC: American Association of Retired Persons.

Pettinger, R. (2002). *Managing the flexible workforce.* Oxford, U.K: Capstone Pub.

Pfeffer, J. (1994). *Competitive advantage through people.* Boston, MA: Harvard Business School Press.

Prahalad, C. K., & Hamel, G. (1990). The core competencies of the corporation. *Harvard Business Review, 68*, 79–91.

Rau, B. L., & Adams, G. A. (2005). Attracting retirees to apply: Desired organisational characteristics of bridge employment. *Journal of Organisational Behaviour, 26*, 649–660.

Rayton, B. (2012). *The evidence: Employee Engagement Task Force "Nailing the evidence" workgroup*. University of Bath. Accessed from http://opus.bath.ac.uk/35611/

Rocco, T. S., Stein, D., & Lee, C. (2003). An exploratory examination of the literature on age and HRD policy development. *Human Resource Development Review, 2*, 155–180.

Rodgers, C. S. (1992). The flexible workplace: What have we learned? *Human Resource Management, 31*(3), 183–199.

Sacks, D. (2006). Scenes from the culture clash. *Fast Company*, (102), 72–77.

Simons, N. (2010). Leveraging generational work styles to meet business objectives. *Information Management, 44*(1), 28–33.

Smola, K. W., & Sutton, C. D. (2002). Generational differences: Revisiting generational work values for the new millennium. *Journal of Organisational Behaviour, 23*, 363–382.

Stein, D., Rocco, T. S., & Goldenetz, K. A. (2000). Age and the university workplace: A case study of remaining, retiring, or returning older workers. *Human Resource Development Quarterly, 11,* 61–80. doi:10.1002/1532-1096(200021)11:13.0.CO;2-S

Sullivan, S. E., Forret, M. L., Carraher, S. M., & Mainiero, L. A. (2009). Using the kaleidoscope career model to examine generational differences in work attitudes. *Career Development International, 14*(2-3), 284–302. doi:10.1108/13620430910966442

Tapscott, D. (2009). *Grown up digital: How the net generation is changing your world*. New York: McGraw-Hill.

Tidd, J., Bessant, J., & Pavitt, K. (1997). *Managing innovation. Integration technological and organizational change*. Wiley & Sons, Chichester.

Timmerman, T. A. (2000). Racial diversity, age, diversity and team performance. *Small Group Research, 31*, 592–606. Retrieved from DOI: 10.1177/104649640003100505

Ulrich, D. (1998). A new mandate for human resources. *Harvard Business Review,* 124-34.

Wagner, W. G., Pfeffer, J., & O'Reilly, C. A. (1984). Organizational demography and turnover in top management groups. *Administrative Science Quarterly, 29*, 74–92.

Wagner, K. (2007). Filling the gap. *Journal of Property Management, 72*(5), 29–35.

Wesner, M. S., & Miller, T. (2008). Boomers and millennials have much in common. *Organization Development Journal, 26*(3), 89–96.

White, A. (1996). *Continuous quality improvement: A hands-on guide to setting up and sustaining a cost effective quality programme*. Gloucester, England: Judy Piatkus (Publishers) Ltd.

Wright, P. M., & Snell, S. A. (2005). Partner or guardian? HR's challenge in balancing value and values. *Human Resource Management*. doi:10.1002/hrm.20061

Yousef, D. A. (2000). Organizational commitment as a mediator of the relationship of leadership behaviour with job satisfaction and performance in a non-western country. *Journal of Managerial Psychology, 15*(1), 6–24.

A Critical Review of the Impact of Five Different Generations in the Workplace, and How the HRM Practices of Hiring and Recruitment, Engagement and Flexibility can Enhance the Workplace for all these Generations

Mike Brummit

Introduction

As we have discussed, it has been projected that into the future the workforce will change considerably with most workplaces having five generations working side by side. The effect that this unprecedented diversity in age will have has yet to be determined and has raised considerable debate. The subject of this debate has ranged from an increase in innovation, creativity and productivity as a result of the mixture of different values, skills and experiences blending harmoniously together (Cox & Blake 1991) to the other end of the spectrum of discrimination, conflict, lack of cooperation and turnover leading to less productivity (Timmerman 2000, Jackson et al 1991; Wagner, Pferrer & O'Reilly 1984). Where there is some consensus is that if the issue of different generations in the workplace is not considered and responded to then businesses are risking the effects of reduced profit as a result of lower productivity, frustrated employees and higher turnover (Sacks 2006).

The generations that will soon be in the workplace were categorised by the US department of consensus 2007 as: Traditionalists, born before 1946; Baby Boomers, born between 1946 and 1964; Generation X (Gen X), born between 1965 and 1976; Millenials, born between 1977 and 1997 and finally Generation 2020, born after 1997. Some of the major characteristics of these generations are that Traditionalists are very loyal, have a strong work ethic and put what is deemed best for the organisation before what they deem best for themselves (Macon & Artley 2009). Baby Boomers believe in lifetime employment and company loyalty (Elsdon & Lyer 1999) as opposed to Generation X who do not share this same strong organisational loyalty (Herman et al 2003). This is the first generation that recognised and placed an importance on work life balance, and if the organisation could not accommodate this then they would leave. They are the first generation to take the view that working hard and providing for your family, is not enough. If you are going to put your family first then you actually need to be physically there for them. If Generation X were the first generation to recognise the work life balance then Millenials fully embraced it. They demand a very individual career path and are prone to shifting positions and companies to achieve this (Macon & Artley 2009). Finally Generation 2020 are yet to enter the workforce but we do know they will be smarter, quicker, more technologically aware and tolerant of diversity than previous generations and care strongly about justice and the problems faced by society (Tapscott 2009).

This assignment was for MANT431 Advanced Human Resource Management
Supervised by Dr Paula O'Kane

Key Findings

In reviewing the impact of these different generations on the work place we interviewed a HRM manager and CEO at two different organisations in the disability sector. These organisations provided very similar services, had very similar values and both viewed HRM as making an overarching strategic contribution to the outcomes of their organisations. The only major differences was the size, the first organisation employed over 200 staff whilst the second employed 50 staff.

A key finding that emerged were that both organisations had an even spread of the generations working in their organisations. They both agreed that this had occurred due to the nature of services provided, and as a result of supporting numerous people from the different generations they needed to recruit staff from across the generations. In terms of how those different generations were interacting in the present time, neither organisation identified any specific generational problems or conflicts. Rather than experiencing some of the negative effects highlighted by Kupperschmidt (2000), of diminished levels of job satisfaction, reduced productivity and higher turnover, it was far more aligned with DiRomualdo (2006), where they are working together extremely well, benefiting from the mixture of skills and perspectives and learning from each other to produce very positive outcomes.

Whilst this was the overall theme from both organisations, there were a number of comments made that did highlight the different characteristics of different generations. Some of these examples included Millenials being described as just wanting to get on with it, always looking to challenge the status quo in the workplace and make change happen. During the interview when discussing Milenials the CEO stated, 'I would almost call them impatient, but I refer to them as over enthusiastic'. She went on further to say that she needs to spend more time with them personally because they want to get to know her, and for her to know them. In terms of employee engagement, she needed to ensure that they were included and made aware of the outcomes and finally that in a period of change she would actively recruit more Millenials because they are ready for change. These comments did support Horwitz and Horwitz (2007) 'double edge sword effect' theory, that yes there are many benefits to a multi-generational workplace but also there are numerous differences which hold the potential for negative consequences.

Size of the Organisation

The size of the different organisations certainly raised many interesting points and the use of the different HRM practices was most evident here. Both organisations considered themselves to be highly flexible with their workforce given the restraints of the nature of the work. The flexibility was most evident in work schedules, where staff worked a mixture of hours, shifts, and times. Both organisations clearly recognised that flexible work schedules has a major bearing on both younger and older employees decisions about returning and remaining within that organisation (Montenegro et al 2002). In relation to size and recruitment both organisations wanted to recruit from across the generations, but needed all potential staff to align with their values. The smaller organisation was more easily able to do this through word of mouth referrals, predominately generated from existing staff who know what those values were. The recruitment process could then be more efficiently carried out by a staff member who also knew the values and was used as a second opinion. As the second organisation was larger, required more staff, had a proportionate increase in turnover they were required to recruit from the newspaper and internet. A more formal process was then required to try and ensure they captured those values.

Both flexibility and employee engagement carried many parallels in regard to the size of the organisation. Whilst both considered themselves to be flexible it was the smaller organisation that could be more responsive. They had frontline managers who clearly understood the culture and importance of applying flexibility and could do it fairly and equitably on an informal basis which benefited all generations, and encouraged them all to use it more. The larger organisation had become more formalised around their use of flexible working practices, and whilst it was still available it was less responsive and immediate, with a greater emphasis being placed on transparency and consistency of application. If organisations are going to grow then this dilemma is certainly going to have to be addressed, because what we know is that flexibility is the one thing that people of all generations want, and want more of (Beekman 2011). A point of interest was that the smaller organisation was considering replacing their culture of flexibility, which is currently freely available to all staff with a system whereby flexibility becomes a benefit and is linked to employee performance. The literature strongly indicates that in term of overall organisation performance this would be a grave error, as if there is one point that is agreed upon in the literature it is that flexible work rearrangements are crucial in an organisations ability to attract, retain and engage employees from different generations (Eversole et al 2012). It is highly likely that this one policy change would be a direct contradiction to many of the organisations other policies.

In terms of employee engagement this was an area that both organisations viewed as crucial and as an area they aspired to do better in. There was a distinct acknowledgement that Millenials, and probably even more so Generation 2020, wanted to get to know you as their manager personally and wanted you to get to know them too. In addition the younger generations wanted to be involved far more in all the processes. They wanted to be involved in the decisions, have input that actually impacted on outcomes, be made aware of those outcomes and they wanted it all to happen immediately. This is as opposed to previous generations who were more inclined to refrain from discussing their home lives with their managers, being directed what to do, and not being so concerned with what happens when they have finished their part. The solution for the larger organisation, was to have systems and a point of contact for staff so communication could be pushed both upwards and downwards. For the smaller organisation, however, the key lay back with flexibility. Ensuring that all managers had flexibility in their work to be able to go and meet all staff and spend quality time with them, and getting to know them. The literature not only makes reference to the importance of communication but goes further and discusses meaningful collaboration between the organisation and the employee. For Millenials and Generation 2020 working in collaborative cultures and environments is going to be highly important (Luscombe et al 2013; Tapscott 2009). Not only will they want to be consulted on the broader organisational issues but also on individual related aspects that affect them such as what position do they hold, what tasks do they undertake and how are the recognised and remunerated. For these generations whenever an opportunity to consult them and include them on a decision making process arises it will need to be taken. This research suggests that we should move away from HRM policies and procedures of employee engagement to collaborative cultures where engagement at all levels at all times is a basic expectation.

Luscombe et al (2013) continue with this collaboration to also tap into the Millenials and Generation 2020's social awareness and deep interest in the problems faced by society to advocate a collaborative approach to supporting certain charities. They suggest that these generations could determine which charities the organisation supported and also the way in which that support is offered. This process would not only engage these employees it would also highlight to them that they are working for an organisation that cares strongly and is socially aware, and in this way the values of the organisation would align with their values, and as a result make the organisation a more appealing place to work and be associated with. The final and crucial point that was made is collaborative working and cultures require trust and organisations to behave fairly and equitably. Millenials will not remain in organisations that consult with them but then do not follow through on the agreed outcomes, whether that was over an organisational decision making processes or personal promise made at the recruitment stage of recognition for future performance.

Once again there appears to be a correlation between the size of an organisation and the need for more formalised HRM processes. In terms of growth this is again going to be a significant issue for organisations who are, in this day and age, operating in a business environment that is forcing them to be responsive, agile and adaptable (Sharp et al 2000). Undoubtedly innovative human resource practices which can address these issues will be invaluable to an organisations overall performance and its ability to attract, retain and engage quality employees.

Life Cycle is More Important than Generations

When we delved deeper into the issues of flexibility both organisations commented that flexibility was crucial in attracting and retaining staff from across all the generations. Both organisations consistently stated, however, that the requirement for flexibility and any changes in the form of that flexibility, whether it be work schedules, sabbaticals, working from home etc was far more relevant to the life cycle, and the stage that an individual is at, than to what generation they belong too. Numerous examples were given from both organisations, but some more specific ones were that an 18 year old who has just started a family requires the same flexibility from the workplace as a 40 year old who has just started a family. Millenials are requesting months off work so they can travel before they commit to a career in the same way that Baby Boomers and Generation X employees are requesting time off, to travel as the children have just left home, and they would like to take an extended break before they refocus on the workplace.

The CEO of one organisation stated, 'It is more about where they are in their life cycles than the generation they have been assigned to'. This awareness whilst not explicit is supported in the literature. Traditionalists, who have been viewed as very hard working, very loyal and always puts the organisation first are now beginning to sight flexible working practices to meet family demands and to provide more leisure time as important to them in the workplace (Montenegro et al 2002). This is an attitude you would have expected to observe in younger generations. In addition Baby Boomers who are approaching retirement demand a more flexible approach, they do not want to see retirement as permanent but want the opportunity to exit and enter the workforce as it suits them (Atchley & Barusch 2004). This is another example of an attitude we would consider more closely aligned with Millenials. The conclusions that were drawn from this discussion is that everyone, regardless of which generational cohort you belong to, is demanding more flexibility from the workplace. Those employees want to be seen and treated as an individual and have HRM policies and practices to suit them and where they are in their life cycle and not be dictated to, based on the year they were born, and stereotypical beliefs.

Acknowledging the Different Generations in the Workplace

During the interviews both organisations acknowledged that they had different generations in their employment and that it was important to consider these different generations when making decisions, developing HRM practices, building culture etc. however neither organisation had done anything practical or developed any strategy around the generations. This is most likely an indication of just how contemporary this issue is, indeed Generation 2020 is not yet in the workplace, and the importance of innovative and creative HRM solutions and policies. Both organisations spoke about a theoretical understanding of the differences, but could not offer any practical application for that theory. The only mention of changing practices based on generational differences came from the CEO of the smaller organisation. Presently they do all their recruitment through word of mouth, however she stated that if in the future this method was insufficient to meet the needs of the organisation then she would use the internet and social media to advertise as this was the now the new standard place where applicants looked for work. She went one stage further when she talked about wanting to initiate a number of changes within the organisation, and that she has considered targeting Millenials in recruitment as she believes they are not just more accepting of change, they will actually be the ones to drive it.

Implications for Managing Different Generations

From these key findings certain points appear to come to the fore. What was clear is that both organisations wanted to understand the different generations in the workplace, how to manage those differences and what the implications may be. It was evident however, that whilst understanding the different generations can be useful in understanding priorities, and explaining certain phenomenon, it cannot be utilised as a silver bullet strategy to manage your workforce. Getting to know your workforce and obtaining a fundamental understanding of its generational make up will enable organisations to recognise how this contributes to communication difficulties, conflict and decreased levels of organisational commitment (Lancaster & Stillman 2002) and therefore offer practical solutions to manage this. A good example of how this understanding can be used was discussed by Kupperschmidt (2006). She noted that whilst inherent conflict in the workplace maybe exacerbated by different generations, that respect would be a key value for all generations which would assist in communication and interactions. Indeed that mutual respect across generations had been linked with retention, a key first step in organisational commitment. To extend this notion it offers opportunities for organisations to build and embrace their employee's awareness of the different generations. This could be done through team building exercises, social events, generation training and workshops, and a starting point could be asking members from across the generations to come together and find a solution or activity that works for them. Educating the workforce and building an understanding of generational differences could be a great way to build cohesion and respect.

The literature and the research combine to demonstrate, however, that there is no one size fits all approach to managing a multi-generational workforce. The message that came through in terms of genuine engagement, delivering flexibility and effective recruitment and hiring was that managers needed to get to know their work force. Not only is there a need to gain a solid understanding of the different generations it is more important to get to know the characteristics, needs and aspirations of the individuals' that make up the workforce. This aligns with being a strategic HRM organisation where frontline managers are empowered to make decisions, initiate actions and carry responsibilities to make things happen, within the group of staff they manage, as they are the ones who best know the individual traits of that group and the needs of the individuals' within it.

Engagement and Flexibility

The research confirms that all organisations, but in particular those who are expanding, need to be very thoughtful about how they address the issues of engagement and flexibility in terms of the needs of the generations. Motivation, and support from colleagues and supervisors have been identified as important to all generational workers and highly useful in maintaining and improving satisfaction in the workplace and therefore commitment to the organisation (Benson & Brown 2011). Certainly central to the generations for Gen X and onwards but also for previous generations is that managers need to find the time and the opportunities to get onto the shop floor, be visible, accessible, open, and thoughtfully engage with the workforce. Whilst the literature supports the notion that understanding the generational diversity enables you to fit policies to accommodate the different groups (Kuppershmidt 2000), it also supports, and this research supports the notion that it is crucial to understand how work and people interact, and have an ability to make predictions about the way individual employees will respond to these various interaction (Benson & Brown 2011). Increasingly the most effective way to engage your workforce is not to produce complex systems for feedback, but to actually put the time aside and get to know them individually and personally. This aligns with the ability to offer and deliver a flexible workplace which all generations have shown to value.

Implications for Future Workplaces

What our research also confirmed was that organisations needed to be reviewing their HRM practices now in preparation for the future. We found that previous generations did in fact have greater commitment to the organisations than those currently entering the workplace. This is in line with earlier finding by Twenge et al (2010) who demonstrated that Millenials had a higher turnover intention than previous generations. This is of particular concern when demographically their will, as a proportion be fewer younger workers available and there has been an established link between lower employee engagement and lower job performance (Jaros 1997; McElroy 2001).

Some of these factors are building up to what in some sectors is being referred to as a 'perfect storm' (Hernandez 2005). In this case we currently have Traditionalists, who have always had strong organisational loyalty, wanting to stay and pass knowledge on. Loyal Baby Boomers who have been involved in one organisation for a long period and provide stability and wealth of knowledge. Gen X who if they have the right work life balance have stayed, absorbed that knowledge and are ready to progress, with Millenials and Generation 2020 bringing in creativity, innovation and technological savvy. If we were too fast forward a number of years when the Traditionalists and Baby Boomers move out of the work place and Gen X are approaching the latter years of their career, will they still want to stay and pass on the experiences, will they still be 'putting the organisation first' as previous generations did, will they be looking to balance a more relaxed work leisure balance or leaving the workplace entirely. If the Millenials and Generation 2020 are moving between positions and organisations, how do organisations retain quality staff, provide continuity and leadership, protect ideas and core competencies etc, who invests in the organisation to ensure it is fit for purpose in the long term and for future generations. In terms of a solution Lub et al (2012) suggest that now is the time to be focusing on Gen X and the Millenials. That both groups would benefit from some coaching management styles and innovative HR policies that will ensure they are constantly being challenged and developing. Their findings, give special attention to Gen X, as they are more likely to stay with the organisation and be committed, but also as their needs are broader and include issues such as work-life balance, job security and autonomy. Beekman (2011) goes further in his recommendations for HR innovative practices. He stresses that if organisations are going to be ready for this future impact then they must adopt flexible working policies, as it appeals to all generations and increases morale and productivity across the workforce. He identifies, as of particular importance to Gen X and Millenials effective and generous family leave polices, to ensure they are attracted to and remain in the same organisation. He recommends a broadening of the reward and recognition programs to encompass all employees, from all generations, who are likely to be motivated by different factors. Individualise not only the incentives available but the way they are offered. Finally he discussed giving Millenials extra attention and tapping into their desire to make a difference and the fact they want to make it fast. The literature, also supports that whilst Millenials are prone to moving around organisations, they are also looking for significant responsibility, in a challenging workplace that provides them with open and positive management, clear direction and the ability to be creative

(Broadbridge et al 2007; Martin, 2005). In addition, as discussed, Millenials and Generation 2020 are looking to work for organisations that are collaborative, open, fair and honest with them. They want to be valued and recognised for the work that they do and in return are prepared to undertake challenging work and commit to the organisation. In line with the collaborative environment organisations should actually discuss with these generations explicitly, what is expected of them in adding value to them, but also how the organisation can add value to them personally (Luscombe et al 2013).

Luscombe et al (2013) also highlighted the importance of giving Millenials the opportunity to extend themselves and continue the practice of ongoing personal development through further training and graduate programmes as an effective means of building commitment to the organisation and therefore retaining your most talented staff. One of the crucial factors in training for the Millenials and Generation 2020 is that this personal development must be linked to career goals and those employees must be able to see the connection with the training they are doing and the advancement potential. Organised and managed effectively training and personal development would become a crucial weapon for organisations to attract, engage and retain these generations.

One of the central themes coming through from this research is the importance of strategic HRM and its pivotal role in linking together all the practices that are going to vital for future organisations if they are going to both survive and thrive. In line with what has been discussed, it will not be merely sufficient for organisations to be collaborative with their employees and engage them in certain areas, or offer them personal development opportunities, or be seen to be socially aware etc. What organisations must come to terms with is that if they are developing training and graduate programmes then this must be done in collaboration with the employees, when the development programmes are being constructed they will definitely need to be focused on individual career goals, but may also need to address a wider issue for society and in the same pattern when contributing to the wider society, how do they collaborate with employees? Is it just an opportunity to donate money, or should they be focusing on donating time, skills and the organisations core competencies and if this is so, is this another opportunity for personal / professional development for employees?

Furthermore we have already discussed that the Millenials have grown up being immersed in technology (Macon & Sacks 2009), but also crucially that Generation 2020 will have grown up using technology as part of their lives and they will have the expectations that employers will provide them with these same technological tools and opportunities that they utilise in their personal lives (Tapscott 2009). In terms of both recruiting and retaining employees from these generations it is therefore logical that these employees will value and will want an association with an organisation that is technically savvy and up to date (Luscombe et al 2013). For Generation 2020 not only will they have at their disposal the technological tools that they expect but they will also place a value on working for an organisation that is perceived by their peers and others as innovative and contemporary. To summarise Altimier (2006) identified five aspects that are important to Millenials in the workplace, that employers need to be aware of if they are going to successfully attract and retain them. These are a fun environment, opportunities for growth, variety of work projects chances to learn new skills and flexible work schedules. There is also no reason to conclude that this would not be important to Generation 2020.

Conclusion

Our research combined with the literature has demonstrated what a pressing and contemporary issue generational differences in the workplace is. Whilst certain literature on different generations, their characteristics and skills have been around for a considerable period the research that identifies innovative solutions, and to incorporating innovative HRM strategies such as recruitment, engagement and flexibility is all contemporary. Furthermore from our research, both organisations stated they were in the position where they knew that this issue was approaching, and that it would need to be managed, they had a good theoretical standing however neither organisation had implemented or had plans to implement any practices specifically aimed at either the different generations or ensuring that these generations worked smoothly alongside each other.

In general our research supports previous literature on the generational differences. It highlights that organisations should draw upon a theoretical framework when managing the different generations but treat individuals individually, and be aware of their life cycle. We conclude that size and growth will be important considerations when managing generations. Whilst in today's business environment it is fundamentally important that all organisations are strategic, larger organisations have the additional problem of ensure that they remaining in contact with their staff. The most recent generations in the workforce demand that personal touch, to be involved and have opportunities and career pathways tailor made for them, as well as a flexible work environment that suits them. In addition, when recruiting, how do you identify potential employees with similar values as the organisations? The answer to this dilemma appears to be in setting a collaborative culture, where employees work alongside managers and the organisation to achieve its goals. This will involve getting senior and middle managers onto the ground floor to meaningfully engage with and understand the workforce. Once you build this understanding then employees will be engaged and you will understand the individual needs, so flexibility becomes less problematic to manage and your employees will know the values of the organisation.

There are also some practical implications from this research and we have highlighted that what will be common to all workplaces is that managers will need to build environments and cultures that are respectful, aware and understanding of generational differences (Appelbaum et al 2005). To avoid the 'perfect storm', when creating those environments organisations need to recognise that the newer generations entering the workforce want it to be challenging, rewarding, flexible and one that enables them to develop professionally. This may well mean the introduction of mentoring and coaching and specific training programmes. Finally organisations should recognise that the best talent is going to be attracted to and remain with those organisations that are socially aware, technologically advanced, are on the frontier of contemporary advancements and have innovative and progressive HRM practices. That it will be how they strategically and collaboratively align all these issues which will determine how successful they manage the generational differences, and as a consequences attract and retain the best talent and have that talent working together that produces a synergy that in turn impacts positively on organisational commitment, lower turnover, utilisation of skills and ultimately profits and outcomes.

Organisations should begin the process now of encouraging Millenials, and Generation 2020 when they enter the workforce, to contribute and reward them by offering regular opportunities for advancement and challenging work. If organisations can empower them and surround them with other committed and motivated employees, then they will instil in them a sense of loyalty which will ensure they are retained within the organisation and they will then go on to be the leaders of the future.

References

Altimier, L. (2006). Leading a new generation. *Newborn and Infant Nursing Reviews 6*(1), 7-9.

Appelbaum, S., Serena, M. & Shapiro, B. (2005). Generation “X” and the Boomers: An analysis of Realities and Myths. *Management Research News 28*(1), 1-33.

Atchley, R. C., & Barusch, A. S. (2004). Social forces and aging: An introduction to social gerontology. Belmont, CA: Wadsworth/Thompson Learning.

Beekman, T. (2011). Fill in the generation gap. *Strategic Finance, 93*(3), 15-17.

Benson, J., & Brown, M. (2011). Generations at work: Are their differences and do they matter? *The International Journal of Human Resource Management, 22*.

Broadbridge, A. M., Maxwell, G. A., & Ogden, S. M. (2007). Experiences, perceptions and expectations of retail employment for generation Y. *Career Development International, 12* (6), 523-44.

Bureau of Labor Statistics (2007). US Census. Retrieved from http://www.bls.gov

Cox, T. H., & Blake, S. (1991). Managing cultural diversity: Implications for organizational competitiveness. *Academy of Management Executive, 5*, 45-56.

DiRomualdo, T. (2006). Viewpoint: Geezers, grungers, genXers, and geeks: a look at workplace generational conflict. *Journal of Financial Planning, 19*(10), 18-21.

Elsdon, R., & Lyer, S. (1999). Creating Value and Enhancing Retention through Employee Development: The Sum Microsystems Experience. *Human Resource Planning, 22*(2), 39-48.

Eversole, B. A., Venneberg, D. L., & Crowder, C. L. (2012). Creating a flexible organizational culture to attract and retain talented workers across generations. *Advances in Developing Human Resources, 14*(4), 607-625. DOI: 10.1177/1523422312455612

Herman, R. E., Olivo, T. G., & Gioia, J. L. (2003). *Impending crisis: Too many jobs too few people*. Winchester, VA: Oakhill Press.

Hernandez, S. R. (2005). The perfect storm: Nursing in the twenty first century America. *Health Affairs 24*(5), 1372-1373.

Horwitz, S. K., & Horwitz, I. B. (2007). The effects of team diversity on team outcomes: A meta-analytic review of team demography. *Journal of Management, 33*, 987-1015.

Jackson, S. E., Brett, J. F., Sessa, V. I., Cooper, D. M., Julin, J. A., & Peyronnin, K. (1991). Some differences make a difference: Individual dissimilarity and group heterogeneity as correlates of recruitment, promotions and turnover. *Journal of Applied Psychology, 76*, 675-689.

Jaros, S. J. (1997). An assessment of Meyer and Allen's (1991) three-component model of organizational commitment and turnover intentions. *Journal of Vocational Behaviour, 51*(3), 319-37.

Kupperschmidt, B. R. (2000). Multi-generation employees: Strategies for effective management. *The Health Care Manager, 19*, 65-76.

Kupperschmidt, B. R. (2006). Addressing multigenerational conflict: Mutual respect and carefronting as strategy. *Journal of Issues in Nursing 11*(2).

Lancaster L. C., & Stillman D. (2002). *When generations collide: Who they are, why they clash, how to solve the generational puzzle at work.* Harper Collins Publishers, New York, NY.

Lub, X., Bijvank, M. N., Bal, P. M., Blomme, R., & Schalk, R. (2012). Different or alike? Exploring the psychological contract and commitment of different generations of hospitality workers. *International Journal of Contemporary Hospitality Management, 24*(4), 553-573.

Luscombe, J. Lewis, I., & Biggs, H. C. (2013) Essential elements for recruitment and retention: Generation Y. *Education & Training, 55*(3), 272–290.

Macon, M., & Artley, J. (2009). Can't we all just get along? A review of the challenges and opportunities in a multigenerational workforce. International *Journal of Business Research, 9*(6), 90-94.

Martin, C. A. (2005). From high maintenance to high productivity: What managers need to know about Generation Y. *Industrial and Commercial Training, 37*(1), 39-45.

McElroy, J. C. (2001). Managing workplace commitment by putting people first. *Human Resource Management Review, 11*(3), 327-335

Montenegro, X., Fisher, L., & Remerez, S. (2002). Staying ahead of the curve: The AARP work and career study conducted for AARP by Roper ASW, Washington, DC: American Association of Retired Persons.

Sacks, D. (2006). Scenes from the culture clash. *Fast Company*, (102), 72-77.

Sharp, J. M., Hides, M. T., Bamber, C. J., & Castka, P. (2000). Continuous organisational learning through the development of high performance teams. *International Conference on Systems Thinking in Management*.

Tapscott, D. (2009). *Grown up digital: How the net generation is changing your world.* New York: McGraw-Hill.

Timmerman, T. A. (2000). Racial diversity, age, diversity and team performance. *Small Group Research, 31*, 592-606. Retrieved from DOI: 10.1177/104649640003100505

Twenge, J. M., Campbell, S. M., Hoffman, B. J., & Lance, C. E. (2010). Generational differences in work values; leisure and extrinsic values increasing, social and intrinsic values decreasing. *Journal of Management, 36*(5), 1117-42.

Wagner, W. G., Pfeffer, J., & O'Reilly, C. A. (1984). Organizational demography and turnover in top management groups. *Administrative Science Quarterly, 29*, 74-92.

The Influence of Individualistic and Collectivistic Culture on Trust Repair after Trust Violation: The Role of Attribution and Perceptual Affordances

Chiedza Chimhundu

Introduction

Trust has received a great deal of attention as a concept within several disciplines including social psychology, sociology, psychology and management (Doney, Cannon, & Mullen, 1998). It is widely praised for its central role in establishing and maintaining close cooperative and productive relationships (Tomlinson & Mayer, 2009). In recent years trust repair has been a hot button topic within the trust literature, the understanding for researchers being that the ability to repair trust after a violation is very important to restoring interpersonal relationships. Recent research has also begun to establish understanding of the antecedents, moderators and mediators of trust repair as well as the factors that impact upon trust repair. However, there is not a great deal of research underlying the impact of culture on the efficacy and likelihood of trust repair between trustor and trustee. Significantly, cultural context is deemed to have impact on a number of outcomes and has been specifically proposed to affect propensity to trust (Schoorman, Mayer, & Davis, 2007). The theoretical framework behind the current paper stems from the understanding that cognitive responses and decision making in relation to trust repair are influenced by an individual's culture. The paper specifically delves into the characteristics of individualist and collectivist cultures in order to establish their differences in perception and causal attribution of behaviour. These differences are proposed to be implicit and specifically impact upon the responses of trustors to trust repair.

There are three key levels at which trust can be conceptualised: individual, group and organisational (Fulmer & Gelfand, 2012; Mayer, Davis, & Schoorman, 1995). The current paper focusses on interpersonal or individual level trust and the impact of culture on its repair. Firstly, the paper will set the scene by providing and brief context to understand the key concepts and components of trust and the antecedents of trust development. Secondly, it will provide understanding a contextual understanding trust repair. The paper will present research that has established the way in which culture impacts upon the development of trust. It will also introduce theory of causal attribution to establish it as an explanation for the differences in judgements of trust repair between individualist and collectivist cultures. The review will also present a theoretical explanation for the differences in attribution of trust repair attempts by highlighting the perceptual differences between collectivists and individualists, being holistic and analytic respectively. The review will make comparisons of two cultures theorise on how the two cultures differentially affect the impact upon trustor views of trust repair attempts after trust violation. In order to advance how trust

This assignment was for MANT419 Advanced Organisational Behaviour
Supervised by Prof Steven Grover

repair is considered and perhaps establish culture as an important factor within trust repair.

What is Trust? - Components, Antecedents, Outcomes

Trust is often viewed as concept that is difficult to pin down; this is clear by the numerous diverse views on the concept of trust (Doney et al., 1998; Huff & Lane, 2003). Mayer et al. (1995, p. 712), in their integrative model of organisational trust, define trust as the "willingness of one party to be vulnerable to the actions of another party (trustee) based on the expectation that the trustee will perform a particular action important to the trustor regardless of the ability to monitor or control the trustee". Fukuyama (1995) views trust as an expectation of regular honest and cooperative behaviour based on commonly shared norms and values. The key element of trust that is established is the willingness of individuals to be vulnerable to one another. The need for trust is established at multiple levels, whether it be at a dyadic level between individuals within an organisation or between organisations themselves (Doney et al., 1998). In order to fully understand the concept of trust it is important to briefly highlight its antecedents, components and characteristics. Trust represents an important aspect of many dyadic relationships. Trusting relationships ensure that individuals are able to form close bonds with others. Furthermore, in order for individuals to work together interpedently there is need for them to depend on one another.

The social function of trust is well known; trust acts as a social lubricant making individuals who a not immediate partners (i.e. strangers) able to work together interdependently (Yamagishi & Yamagishi, 1994).

Development of Trust

A number of studies have focussed on the characteristics of the trustee as important determinants of the development or formation of trust. Specifically in order for an individual to be vulnerable to an individual they must feel they can place their faith in that individual. Mayer et al. (1995) underline benevolence, integrity, and ability as important characteristics of a trustee central to the development and evolution of trust. Three key factors are highlighted for a trustee to garner trust; benevolence, ability and integrity. These factors impact upon how much trust an individual garners and the extent to which the individual is trusted and therefore represent factors of perceived trustworthiness. Benevolence refers to the extent to which a party is believed to want to do good for a trusting party (Dirks, 1999; Mayer et al., 1995). Therefore, a benevolent individual is deemed to have no ulterior motives in wanting to good for another (Mayer et al., 1995). Ability as an antecedent of trust is defined by the group of skills, competencies and characteristics possessed by a trustee that have influence on a particular domain or area which enables them to garner trust from a trustee based on their competence or aptitude in that particular area. Finally, and importantly, integrity involves the perception that the trustee adheres to a set of principles and values that the trustee finds to be acceptable or valuable. If a trustee is not perceived to have possessed these principles they would not be seen to have integrity (Mayer et al., 1995). Furthermore trust declines due to perception of decreases in trustee's ability, benevolence or integrity. A multitude of authors suggest very similar factors of trustworthiness although they use different names to conceptualise these factors.

Researchers also establish focus on the trustor's characteristics as important determinants of trust (Fulmer & Gelfand, 2012; Mayer et al., 1995). How the trustor comes to trust a trustee involves cognitive processes in order to determine trustworthiness. These cognitive and perceptual processes will become even more important in discussing the link between trust repair and culture. Specifically, for the trustor propensity is an important determinant of trust development. Propensity to trust or trustfulness refers to an expectation that others in general, whether members of in-group or out-group can be trusted (Huff & Lane, 2003; Mayer et al., 1995). It is generally seen as the likelihood of an individual to trust others. Therefore those with a high propensity for trust are more likely to trust in the absence of information (i.e. when the trustee is a stranger) about the trustee than those with low propensity. Most relevantly to the current paper, individuals with different cultural backgrounds have been found to vary in their propensity to trust (Hofstede, 1984). It is sometimes found that while some individuals can repeatedly trust in situations where others would not see deserving trust, others may not trust under any circumstances regardless of the situation (Mayer et al., 1995; Schweitzer, Hershey, & Bradlow, 2006). The reflection of characteristics of both the trustor and the trustee show the importance of a mutual trust relationship. The current paper focuses on the reaction of trustors to trust repair attempts. Specifically investigating how culture has an impact on the reactions of individuals to trust repair after trust violations.

Trust repair

The importance of trust is evident, however often violated (Schweitzer et al., 2006). When this occurs it is important to the mutually developed relationship between trustor and trustee that broken or damaged is repaired. Trust violation results in both a cognitive appraisal, in which the victim determines the responsibility for and costs of the violation, as well as deciding on a specific emotional reaction to the violation and the subsequent repair attempt. The way in which trustors respond to trust violation can mean the difference between reconciliation and the breakdown of a relationship (Tomlinson, 2004). Trust repair, restoration or recovery strategies represent the way in which trustees attempt to mend trust after a violation. Additionally multiple strategies can be used in order to repair trust following a violation including apologies, denials, promises, excuses, reparations, or compensation, legalistic remedies and even no response (Kim, Dirks, & Cooper, 2009). For instance trust harmed by untrustworthy actions can be effectively restored when individuals observe a consistent series of trustworthy actions (Schweitzer et al., 2006). Although the importance of trust repair is well established, the factors that facilitate and moderate trust repair are becoming increasingly more important within research. Trust repair represents a significant concept to the restoration of trust after violation and it can be studied both by looking at the actions of mistrusted party and the behaviour of the trustor. What is most relevant to the current theory are the individual factors of the trustor that influence trust repair.

The role of causal attribution in trust repair
The actions and responses and behaviour of the trustor to trust repair are of particular pertinence to the current review. Therefore it is important to understand the cognitive, interpersonal and perceptual processes individuals, specifically trustors, use to make decisions about trust repair (Kim et al., 2009). This is particularly pertinent to the review because inherently culture has an impact on the way individuals make decisions both cognitively and interpersonally (Kim et al., 2009). Some studies have looked at interpersonal and structural factors that lead to trust repair. In this vein attribution theory has been contended to offer insight into how trust develops, declines and is repaired (Morris & Peng, 1994; Tomlinson & Mayer, 2009). The concept of attribution is an important one within psychology at a basic level it is the process by which individuals explain the cause of e vents or behaviours (Kelley, 1973; Weiner, 1972). According to the basic theory of causal attribution within psychology there three specific dimensions on which individuals base their attribution decisions; consensus, distinctiveness and consistency (Kelley, 1973).As with many aspects of life individuals attempt to make sense of the behaviour of others by making attributions about the causes of events; this represents how they make decisions about how to react to an event in case of the review, the event being trust repair after trust violation. Recently researchers have begun to apply causal attribution theory and an attributional perspective to trust repair (Tomlinson & Mayer, 2009).

Causal attribution is the perceptions that individuals have of a negative or positive outcome or behaviour. The attribution process within trust repair focuses on the negative outcomes and predicting whether the event is likely to recur. The decision to repair trust with a trustee and how much to trust after violation is based on the attribution decision. (Tomlinson & Mayer, 2009). Attribution can be applied to trust repair to demonstrate the importance of trustor decisions in the efficacy of trust repair. One key causal attribution dimension that is posited to define the decisions of individuals in relation to attribution is that of the internal and the external attribution locus (Kelley, 1973).

Internal attributions represent perception of the behaviour events or behaviour being caused by the internal disposition, traits or attributes of an individual. Making external attributions means that situational or contextual factors are perceived to be the cause of behaviour or events (Tomlinson & Mayer, 2009). This represents a key attribution dimension. At a basic level it sets out how much of the action or behaviour can be attributed to the individual and how much is attributed to the context or situation. Whether the trustor decides to attribute the behaviour of trustee in trust violation is dependent on the attribution that is made and this has a very important impact on the likelihood of trust repair. Trust in another individual is enhanced to the extent that trustworthiness can be attributed to factors to the internal within the trustee rather than situationally driven or factors relating to context.

Some studies show that there are specific differences in the way individuals make causal attributions in relation trust violation. Situational or external attributions are often formed because external factors are more salient to the individual than dispositional factors in making decisions about trust violations and most likely repair (Tomlinson & Mayer, 2009). The emphasise on situational factors in relation to judgments of trust violations represents a greater opportunity to repair trust because it reduces the culpability of the trustee and allows more easily for trust repair. However, other studies do suggest that trust repair is more likely to occur if trustee assumes blame for violation (i.e. makes and internal attribution) rather than making external attributions for trust violations (Kim et al., 2009).

This suggests that on particular occasions of trust violation and repair, it is actually better for individuals to make internal attributions and encourage trustors to make internal attributions for trust violation. Kim, Cooper, Dirks, and Ferrin (2013) found that there are differences in reaction to specific trust violation (i.e. competence and integrity based violations) depending on the way the trustee uses repair to attribute blame. Specifically denial was seen as the appropriate repair for competence based violations while apology was seen as appropriate for integrity based violations. The attribution decision between internal external factors represents a pertinent cognitive process in decision making in relation to trust violation and repair.

Variation exists in how much and how fast violated individuals repair their trust in another party. Researchers propose that people diverge in their rate of trust repair in relation to numerous factors, including their implicit beliefs; the type of trust violation they are presented and in the current review culture (Haselhuhn, Schweitzer, & Wood, 2010; Kim et al., 2009). Some individuals may find it more difficult to trust the trustee again while others would find it much easier. Fulmer and Gelfand (2013) suggest that a key process that affects trust restoration or repair is the attribution of the violation that has occurred. The attributional process during trust repair is subject to selective interpretation. It is therefore suggested that the differences in attributional decision making in relation to trust repair are also based on the cultural differences of collectivists and individualists.

The Culture Dimension-Differences between Collectivism and Individualism

The key aspect presented in the current paper that is the integration of culture into the trust literature. Doney et al. (1998) highlight that the greatest impacts of culture is how information is used to make decisions. It is a system of values and norms that are shared among a group of people and that when taken together constitute a way of thinking and believing and processing information (Hofstede, 1984). It is define as a pattern of distinctive and enduring behaviour or personality characteristics (Hofstede, 1980). Social differences that exist between different cultures affect their beliefs about specific aspects of the world and the way in which they know the world (Nisbett, Peng, Choi, & Norenzayan, 2001).The values and judgments that are contained within the cultures of individuals have an important impact on the way in which they make a number of decisions. Therefore, it is logical to assume that these differences impact upon the way individuals view and process trust repair.

Trust development and culture

However, within literature much more is known about the relationship between culture and trust development. Research linking trust development to culture provides justification for why trust repair and culture would logically also be linked. Trust building to some extent depends on the societal norms and values that established by culture. Therefore the process trustors use to form trust and logically to repair trust would be heavily influenced by culture (Doney et al., 1998). Within this realm, Yamagishi & Yamagishi's (1994) seminal study identified differences in level of trust between US and Japan, which represent the differences between individualist and collectivist cultures very clearly. They found that in general American respondents were more trusting of others compared to Japanese respondents and that they also considered reputation more important. The authors also demonstrated that the propensity to trust was higher among individualists (i.e. Americans) that among Japanese (collectivists). Clearly cultural norms and values affect trust building processes In further support of the differences in propensity to trust between collectivists and individualists, other researchers have also found ait was higher propensity for trust among US respondents (individualist) compared to Asian countries (collectivist) (Huff & Lane, 2003; Schoorman et al., 2007).

The current paper proposes that culture influences the decisions made in relation to trust repair. Specifically in relation to culture, there is particular interest within research in collectivist and individualist cultures (Hofstede, 1984).Collectivistic and individualistic culture is suggested influence the judgments made about trust repair through the differences in each cultures' perceptual affordances; holistic and analytic respectively (Miyamoto, Nisbett, & Masuda, 2006). The collectivism-individualism dimension is one of the most important within literature that distinguish one culture from another therefore it is vital to understand these differing cultural paradigms (Hofstede, 1984). Furthermore, various conceptualisations exist to define the differences within these particular cultures. It is important to define differences between these two cultural paradigms in order to understand the way in which they may influence the repair of trust. Although both view mutual relationships as important, the way in which they perceive and understand relationships with others is often proposed to be inherently different in a number of areas (Doney et al., 1998; Hofstede, 1980; Huff & Lane, 2003). It is currently it is suggested they also differ in their perceptions of trust repair.

The major differences that emerge between collectivism and individualism is the way in which individuals make decisions and perceive their relationships (Choi, Koo, & Jong An, 2007). Collectivism is characterised by tight social frameworks where people distinguish between in-group and out-group and offer absolute loyalty to the in-group (Hofstede, 1980; Huff & Lane, 2003). Collectivists are likely to find importance in identification with groups therefore group memberships (i.e. with their in-group) are likely to be important to them. Collectivist cultures are deemed to find greater importance in personal relationship. In fact from an organisational perspective collectivist organisations such as Japanese firms often forgo better deals with new partners to maintain long term relationships with loyal partners (Yamagishi & Yamagishi, 1994). Collectivist cultures are widely posed to be accustomed to environments where there is a greater sense of security within established relationship and are often deemed to be but distrustful of people outside of these relationships (Yamagishi, Cook, & Watabe, 1998).

Within psychology it has been demonstrated that members of collectivist cultures emphasise in-group out-group boundaries more readily than individualist cultures (Fulmer & Gelfand, 2013; Yamagishi et al., 1998).

Specifically, in general collectivists are deemed to be more sensitive to this boundary and are therefore more likely to see members of their in-group more positively and have distrust for the out-group (i.e. strangers and outsiders). This is important to consider because group membership presents a factor that is also proposed to influence the attribution decisions after trust violation and repair specifically for collectivists. Collectivists, generally, also shown to have stronger bias towards members their own-group. In relation to trust development specifically, when collectivistic cultures interact with in - group members they exhibit higher trust than with out-group members because the distinction is particularly salient (Doney et al., 1998; Fulmer & Gelfand, 2013). Therefore in relation to trust repair collectivists are suggested to be generally more vigilant to the trust violations of out-group members in general. Furthermore, Nisbett and Miyamoto (2005) add that those within interdependent cultures need to attend to relationships and context to a greater extent than independent cultures. This finding becomes even more apparent when we consider the respective perceptual affordances of these two cultures which are proposed to greatly impact and create different perceptions of trust therefore this become particularly important later within the current theoretical framework.

Conversely, it is proposed that individualist cultures have more analytic perspectives of the world and relationships. The way in which they construe themselves in relation to others is markedly different to collectivists. Individualists are often seen to view themselves as autonomous and unique entities separate from others (Fehr & Gelfand, 2010). Specifically, they are often seen to view themselves as autonomous and unique entities separate from others (Fehr & Gelfand, 2010). Individualists are generally oriented around the self and find greater comfort in independence rather than being motivated by group mentality. Individualist cultures are often conceptualised to be more calculative in the way in which they make decisions. Furthermore, independent, individualistic cultures attend primarily to objects (Nisbett & Miyamoto, 2005). The perceptions and decisions of individuals are mediated by culture therefore it is a logical conclusion the trust repair would be influenced by culture.

A variety of researchers make cross-cultural comparisons between specific cultures in order to demonstrate the differences between collectivists and individualists (Doney et al., 1998; Yamagishi & Yamagishi, 1994). Cross-cultural differences and their impact are important to highlight within the current review because they allow for understanding of the differences in cultural contexts. As well as how these differences may impact on the way in which people make decisions and the processes in terms and trust repair. Understanding the differences between different cultures makes it more clear on the way in which different cultures produce different patterns of perception (Nisbett & Miyamoto, 2005). A number studies have proposed that differences in social structure and practice of cultures leads to differences in perception. The paper further proposes that collectivists and individualists have specific differences in perceptual affordances that directly mediate specific attributional tendencies. The paper moves to understanding the implicit perceptual processes the collectivists and individualists in order to provide an encompassing theoretical explanation how and why these cultures may make attributional decisions in relation trust repair.

Holistic and Analytic Perceptual Affordances as Predictors of Internal and External Attributional Tendencies

The perceptions of individuals can no longer be seen as consisting of processes that are universally similar across all people. It is therefore proposed that holistic and analytic perceptual perspectives are implicit to collectivist and individualist cultures respectively. These implicit perceptual differences are applied to attribution theory previously discussed and suggested to predict attributional tendencies. Specifically, related to cultural differences in patterns of perception and cognition the major proposition in the current review is that the holistic and analytic perceptions of collectivists and individualists impact upon their views of trust repair. Therefore, it is proposed that collectivists and individualists can also be further characterised by their perceptual understandings of the world. Comparisons are often made between those with holistic and analytic perceptions as elements of cultural context (Nisbett & Miyamoto, 2005). Nisbett and Miyamoto (2005) establish that there are effects of culture on how individuals perceive and categorise information. The analytic and holistic perspectives highlight the way in which different cultures perceive the world in which they live (Choi et al., 2007; Masuda & Nisbett, 2001; Miyamoto et al., 2006; Nisbett & Miyamoto, 2005).

Firstly, holistic perception is characterised by a greater attentiveness to context (Miyamoto et al., 2006). Holistic thought or perception is defined as involving orientation to context as a whole including attention to relationships between a focal object (e.g. a trustee) and the context. Generally, its characterised by a preference for explaining and predicting events and behaviour of others on the basis of such relationships (Choi et al., 2007; Nisbett et al., 2001). On the other hand, analytic perception involves detachment of individuals from the context using greater attention to the object and the use of formal logic and rules to understand behaviour. Additionally, individuals with analytic perception have a tendency to focus on the attributes of an object or individual to assign it to categories and to explain and predict an individuals' behaviour. This type of perception requires individuals to decontextualize in their perception of behaviour (Masuda & Nisbett, 2001). Western cultures are proposed to organise objects by emphasising rules and categories therefore they are more greatly considered to have analytic perception(Masuda & Nisbett, 2001). East Asian cultures (collectivistic) are said to be holistic and they assign causality to the environment contextually. (Nisbett et al., 2001).

The notion that perceptual processes are influenced by culture is widely supported by recent evidence. Nisbett and Miyamoto (2005) highlight that western cultures engage in perceptual processes by focussing on salient objects independent of culture, Asian cultures however engage in context dependent and holistic perceptual processes. Recent research outlining collectivism and individualism however have not necessarily made deliberate and clear theoretical links between the collectivism-individualism dimensions and perceptual affordances discussed (Miyamoto et al., 2006; Nisbett & Miyamoto, 2005). It is therefore suggested here that collectivistic culture and individualistic culture each correspond directly to holistic and analytic perception respectively. Additionally, the concept of analytic and holistic perceptual affordances is highly related to causal attribution theory literature which as discussed previously highlight two key attribution decisions;

whether to make internal (dispositional) external (context-based or situational) attributions for behaviour (Choi, Nisbett, & Norenzayan, 1999).The perspective taken in this review is that the inherent differences in the attributions of collectivistic and individualistic cultures come as a result of their differing perceptual affordances. This is suggested to impact upon the way in which they view trust violations and consequently trust repair attempts. Specifically collectivists and individualists have inherent attributions of trust repair as a result of their implicit perceptual perspectives, holistic and analytic respectively. In support of this view some research has established the relationship between culture and causal attribution.

Causal Attribution and Culture

There is some evidence to suggest that collectivists and individualists have inherent differences in their attributional tendencies. Within the causal attribution literature, researchers suggest that cultural values and norms affect the way people make attributions (Choi et al., 1999; Morris & Peng, 1994). The key difference between collectivist and individualist cultures in terms of attribution therefore is seen to primarily come from their level of belief about the importance of context to making decisions about and a trustee’s behaviour. Some evidence suggests that East Asian cultures are less likely to show preference for explanations of behaviour in terms of traits, dispositions and internal attributes of a target individual. Furthermore, individualists have a greater likelihood to believe that behaviour results from disposition therefore they are proposed to make internal attributions to a greater extent (Choi et al., 1999). However, it is suggested that the difference in collectivistic cultures is not caused by a lack of dispositional thinking or an inability to make internal attributions. In fact, it suggested that in East Asian countries disposition is seen as more flexible(Choi et al., 1999). They have a more holistic perception of individuals as being situated in a broader social context. This provides further support for the current theoretical explanation. However, it is also suggested that collectivists are only likely to attend to situational factors when making attribution decisions if these factors are prominent (Choi et al., 1999; Morris & Peng, 1994). This taken together suggests that the perceptual affordances predict attribution tendencies of individualists and these tendencies influence views and reactions to trust repair specifically. Little research exists explicitly using the attributional perspective to examine the relationship between culture and trust repair.

Maddux, Kim, Okumura, and Brett (2011) provide some evidence that the function, meaning and therefore effectiveness of apology as trust repair may differ across cultures. Maddux et al. (2011) contend that individual-agency cultures (e.g. the U.S.) understand apologies as analytic mechanisms for assigning blame and re-establishing credibility, while in collective agency cultures (e.g. Japan) apologies represent general expressions of remorse rather than a means to assign culpability. Specifically, in relation to culture, they found that Japanese apologised more often and were more likely to apologise for actions they were not involved in while Americans more likely to equate apology with personal blame. This finding presents a clear representation of the proposed inherent internal and external attributions that exist within the two cultures as a result of their perceptual affordances.

Japanese are seen to equate apology with remorse for the situation, while individualists are suggested to see apology as trustees making internal attributions for behaviour (Maddux et al., 2011). Most relevantly to the current theoretical framework they show that cultural differences do have implication for trust repair. However, conversely this study looks at the apology specifically and also investigates the link to culture from the perspective of the trustee.

Haselhuhn et al. (2010) highlight a key factor which influences whether or not trustors are receptive repair attempts as being their implicit beliefs regarding moral character. It is suggested that some people believe that moral character is fixed (entity beliefs) whereas other believe moral character can change over time (incremental beliefs). The study examined the relationship between individual implicit beliefs and trust recovery. They hypothesise d that people with incremental views may perceive trust repair attempts as sincere believing that a previously untrustworthy has become trustworthy. Conversely, people with entity beliefs are suggested to believe that people cannot change (Haselhuhn et al., 2010). Therefore, after experiencing trust violation people with entity beliefs may be sceptical or insensitive to repair attempts. At a basic level individuals with incremental beliefs were significantly more likely to trust their counterpart following trust repair (e.g. apology) than individuals with entity beliefs. This provides evidence that individuals can have implicit differences in the way in which they react to trust repair attempts.

The Relationship between Culture, Perceptual Affordances and Causal Attribution as an Influencing Factor in Trust Repair

Research specifically establishing the relationship between trust repair and culture is seemingly scarce. The current theoretical explanation contends that there is a distinct and clear relationship between culture, perceptual affordances and causal attribution that predicts the differences of individualists and collectivists in their reaction to trust repair. Therefore, it is hypothesised that collectivists will be more prone to external attribution for trust violations and repair attempts and this will be explained by an implicit holistic perceptual perspective. In contrast individualist are proposed to generally be more predisposed to internal attributions for trust violation and repair attempts, as a consequence of an inherently more analytic perceptual perspective. Particularly, culture is seen to work as a mediator of respective perceptual affordances that predict the attribution tendencies of individuals(Choi et al., 1999). These culturally-based perceptual and decision making processes are proposed to specifically influence trustors' reaction to trust repair. The key here is that these attributions are theoretically proposed to be inherent the perceptual processes of collectivists and individualists impacting upon their perceptions of trust repair. Collectivists are proposed to be more likely to attend to situational factors when making decisions about trust repair attempts of trustee's after trust violations.

This theoretical explanation for the differences between individualists and collectivists in attributional tendencies for trust repair provides an opportunity to suggest how culture influences the way in which individuals perceive trust repair. The theory reconciles the different concepts of attribution, perceptual affordances and the collectivism-individualism dimension in order specifically explaining the how culture influences reactions or receptivity to trust repair. It is suggested that the implicit analytic perception and external attribution tendencies of individualists means engage they have greater focus on the disposition, traits and personality (Kelley, 1973; Masuda & Nisbett, 2001; Weiner, 1972). When a trustee engages in transgression it is proposed that the trustor will see this violation as being generally stable to the disposition of the trustee. Specifically, it is believed that because individualists focus on attributes of an individual trustors will place less emphasise on context. This is suggested to influences the way in which they perceive trust repair attempt after violation because they implicitly view the untrustworthy behaviour as forming part of the character of a trustee. Consequently, because they attend more closely to disposition this makes individualists less receptive and to and trusting of individuals even after trust repair.

Most relevantly to this explanation, researchers have shown that when considering the underlying cause of an action observers attempt to subtract the effect of the situation and what remains is attributed to the actor (Kim, Dirks & Cooper, 2009). Therefore it is proposed that individualists inherently attribute more to the actor or trustee. This suggests that these individuals make internal judgments of trust repair violations and this inherently reduces the likelihood of trust repair because affects the way in they respond to violations inherently and impacts upon the likelihood of repair. Fulmer and Gelfand (2013) also highlight that forgiveness and trust restoration is more likely when trustors believe the cause of a violation is unintentional and due to situational factors. Therefore, making internal attributions would suggest that the violation is controllable on the part of the trustee. However it can be hypothesised that individualists would moderate their generally implicit internal attributions of trust violations for close members of their in-group such as family members or friends.

Conversely, from a perceptual perspective a collectivist trustor is hypothesised to more readily attribute behaviour of a trustee (i.e. trust repair) in terms of the context the trust violation occurred within (Tomlinson & Mayer, 2009). Therefore, as a result of culturally implicit holistic perception and internal attribution tendencies collectivists would more likely ignore dispositional factors in favour of situational factors to make decisions about trust repair attempts (Choi et al., 2007; Miyamoto et al., 2006). Specifically, they would perceive disposition of the individual as being less fixed and dependent on the context in which the trust violation occurred. Hence it is proposed they would not necessarily see untrustworthy behaviour as being fixed within the personality of the individual. In this respect for individualists when the attribution of situational factors increases the role of the actor as a violator of trust becomes weaker (Kim et al., 2009).

Thus the proposition here is that collectivists will generally be more receptive to trust repair attempts than individualist in the sense that their inherent opinions and judgements of a trustee’s trustworthiness after trust repair are less likely to be altered by trust violation. In this respect because collectivists are more likely to make situational attributions and have more flexible views of disposition they are prone to make external attributions of violations and display faster trust repair. However, as a result of the greater bias toward in-group members, it is also posited that during trust repair, collectivists will less readily make external attributions for behaviour when trust is violated by an out-group member than the in-group (Fulmer & Gelfand, 2013). Consequently, a collectivist's generally implicit external attributions of trust will be moderated by the group membership of the trustee (Morris & Peng, 1994).

Therefore, although individualists generally have a greater propensity for trust development than collectivists (Yamagishi & Yamagishi, 1994), it is suggested that they may implicitly and even unconsciously see the trustee as less trustworthy even after trust repair attempts. It is suggested that while this may not be shown outwardly, in certain instances, internally it would reduce the trustors' inherent perception of the violators' trustworthiness to a greater extent than with collectivists for both in-group and out-group members. At a deeper more perceptual level, this is proposed to be the result of individualists' perceptual tendencies and affordances being holistic and analytic. This provides theoretical hypotheses for the differences between individualists and collectivists in terms reactions to trust repair and combines related cultural concepts together in one framework.

There are of course caveats in proposing the current theory as well as opportunities for further research in this vein. It would be of interest to explore the exact impact of in-group out-group relationships on the theory specifically because group membership is likely to have an impact on attribution for both cultures but to greater extent with collectivists (Doney et al., 1998). Differences are also likely dependent on the type of violation that is experienced by individuals. The way in which individuals implicitly attribute behaviour as a result of their perceptual perspective may be impacted by whether trust violation is competence or integrity- based (Kim, Ferrin, Cooper, & Dirks, 2004). Furthermore, one major caveat that must be highlighted is the limitations in making distinctions across cultures. Making distinctions across cultures although important does not set concrete norms, behavioural assumptions or values on individuals. It is not implied that norms and values are embraced by all groups, subgroups and individuals or are consistent across all segments of the population (Doney et al., 1998). However, it is clearly established that key differences do exist between cultures that would logically influence receptivity of individuals to trust repair attempts.

Conclusion

The theory presented in the current paper underlines cultural differences in attribution tendencies and perceptual perspectives and highlights how these potentially impact upon the efficacy of trust repair with trustors. The paper extends and advances understanding of trust repair specifically by further theorising on whether culture in some way impacts on trust repair by moderating and mediating its impact specifically in relation to collectivist and individualist cultures (Huff & Lane, 2003). The intention to shed some light on the implicit attributional tendencies and perceptual affordances of collectivists and individualists highlights how these differences influence trust repair. Specifically hypothesising that generally the attributions made by the two cultures have an influence on the way trustors view and respond to trust repair. As a result of the holistic and analytic perceptions influencing the attribution tendencies of collectivists and individualists the likelihood of trust repair is influenced. In that respect there may be a number of implications for understanding the relationship between individual trust repair and culture specifically in relation to the highly researched cultural paradigms of collectivism and individualism. It is clear that differing cultural perspectives view their relationships very differently and therefore would potentially make decisions about their trust repair based on these differences. Importantly, the theory presented provides a cultural and perceptual perspective on the factors that impact upon trust repair in interpersonal relationships.

References

Choi, I., Koo, M., & Jong An, C. (2007). Individual differences in analytic versus holistic thinking. *Pers Soc Psychol Bull, 33*(5), 691-705. doi: 10.1177/0146167206298568

Choi, I., Nisbett, R. E., & Norenzayan, A. (1999). Causal attribution across cultures: variation and universality. *Psychological Bulletin, 125*(1), 47.

Dirks, K. T. (1999). The effects of interpersonal trust on work group performance. *Journal of Applied Psychology, 84*(3), 445.

Doney, P. M., Cannon, J. P., & Mullen, M. R. (1998). Understanding the influence of national culture on the development of trust. Academy of Management. *The Academy of Management Review, 23*(3), 601-620.

Fehr, R., & Gelfand, M. J. (2010). When apologies work: How matching apology components to victims' self-construals facilitates forgiveness. *Organizational Behavior and Human Decision Processes, 113*(1), 37-50. doi:10.1016/j.obhdp.2010.04.002

Fukuyama, F. (1995). *Trust : The social virtues and the creation of prosperity*. New York: Free Press.

Fulmer, C. A., & Gelfand, M. (2013). How Do I Trust Thee? Dynamic Trust Patterns and Their Individual and Social Contextual Determinants. In K. Sycara, M. Gelfand & A. Abbe (Eds.), *Models for Intercultural Collaboration and Negotiation* (Vol. 6, pp. 97-131). Springer Netherlands.

Fulmer, C. A., & Gelfand, M. J. (2012). At what level (and in whom) we trust: Trust across multiple organizational levels. *Journal of Management, 38*(4), 1167-1230. doi: 10.1177/0149206312439327

Haselhuhn, M. P., Schweitzer, M. E., & Wood, A. M. (2010). How implicit beliefs influence trust recovery. *Psychol Sci, 21*(5), 645-648. doi: 10.1177/0956797610367752

Hofstede, G. (1980). Culture and organizations. *International Studies of Management & Organization*, 15-41.

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

Huff, L., & Lane, K. (2003). Levels of organizational trust in individualist versus collectivist societies: A seven-nation study. *Organization Science, 14*(1), 81-90.

Kelley, H. H. (1973). The processes of causal attribution. *American Psychologist, 28*(2), 107.

Kim, P. H., Cooper, C. D., Dirks, K. T., & Ferrin, D. L. (2013). Repairing trust with individuals vs. groups. *Organizational Behavior and Human Decision Processes, 120*(1), 1-14. doi: http://dx.doi.org/10.1016/j.obhdp.2012.08.004

Kim, P. H., Dirks, K. T., & Cooper, C. D. (2009). The repair of trust: A dynamic bilateral perspective and multilevel conceptualization. *Academy of Management Review, 34*(3), 401-422. doi: 10.5465/AMR.2009.40631887

Kim, P. H., Ferrin, D. L., Cooper, C. D., & Dirks, K. T. (2004). Removing the shadow of suspicion: The effects of apology versus denial for repairing competence - versus integrity-based trust violations. *Journal of Applied Psychology, 89*(1), 104-118. doi:10.1037/0021-9010.89.1.104

Maddux, W. W., Kim, P. H., Okumura, T., & Brett, J. M. (2011). Cultural differences in the function and meaning of apologies. *International Negotiation, 16*(3), 405-425. doi:10.1163/157180611X592932

Masuda, T., & Nisbett, R. E. (2001). Attending holistically versus analytically: Comparing the context sensitivity of Japanese and Americans. *Journal of Personality and Social Psychology, 81*(5), 922.

Mayer, R. C., Davis, J. H., & Schoorman, F. D. (1995). An integrative model of organizational trust. *The Academy of Management Review, 20*(3), 709-734. doi: 10.2307/258792

Miyamoto, Y., Nisbett, R. E., & Masuda, T. (2006). Culture and the physical environment. Holistic versus analytic perceptual affordances. *Psychol Sci, 17*(2), 113-119. doi: 10.1111/j.1467-9280.2006.01673.x

Morris, M. W., & Peng, K. (1994). Culture and cause: American and Chinese attributions for social and physical events. *Journal of Personality and Social Psychology, 67*(6), 949-971. doi: 10.1037/0022-3514.67.6.949

Nisbett, R. E., & Miyamoto, Y. (2005). The influence of culture: holistic versus analytic perception. *Trends Cogn Sci, 9*(10), 467-473. doi: 10.1016/j.tics.2005.08.004

Nisbett, R. E., Peng, K., Choi, I., & Norenzayan, A. (2001). Culture and systems of thought: Holistic versus analytic cognition. *Psychological Review, 108*(2), 291.

Schoorman, F. D., Mayer, R. C., & Davis, J. H. (2007). An integrative model of organizational trust: Past, present, and future. Academy of Management Review, 32(2), 344-354.

Schweitzer, M. E., Hershey, J. C., & Bradlow, E. T. (2006). Promises and lies: Restoring violated trust. *Organizational Behavior and Human Decision Processes, 101*(1), 1-19. doi: 10.1016/j.obhdp.2006.05.005

Tomlinson, E. C. (2004). The road to reconciliation: Antecedents of victim willingness to reconcile following a broken promise. *Journal of Management, 30*(2), 165-187. doi: 10.1016/j.jm.2003.01.003

Tomlinson, E. C., & Mayer, R. C. (2009). The role of causal attribution dimensions in trust repair. *Academy of Management Review, 34*(1), 85-104. doi: 10.5465/AMR.2009.35713291

Weiner, B. (1972). *Theories of motivation: From mechanism to cognition.* Markham Pub Co.

Yamagishi, T., Cook, K. S., & Watabe, M. (1998). Uncertainty, trust, and commitment formation in the United States and Japan. *American Journal of Sociology, 104*(1), 165-194. doi: 10.1086/210005

Yamagishi, T., & Yamagishi, M. (1994). Trust and commitment in the United States and Japan. *Motivation and Emotion, 18*(2), 129-166. doi: 10.1007/BF02249397

A Dynamic Capabilities Approach to Corporate Parenting Strategy

Matt Lowe

Introduction

Despite a widespread consensus that the objective of corporate parents is to create value to their business units and shareholders, the question of how to do so remains contentious (Adner & Helfat, 2003; Collis, 1996; Goold, Campbell, & Alexander, 1998; Kruehler, Pidun, & Rubner, 2012). This question is set to become even more challenging as globalisation, rapid advances in technology, shortened product cycles, and the merging of market and industry structures make the business environment a more complex and uncertain place (Bryan, 2002; Ghemawat, 2002; Liu & Hsu, 2011; Stalk, Evans, & Shulman, 1992; Teece & Pisano, 1994). In this environment, corporations must not only create value by exploiting existing sources of competitive advantage, they must also strive to develop new sources of advantage in response to an ever-changing environment (Collis, Young, & Goold, 2007; Døving & Gooderham, 2008; Galunic & Eisenhardt, 2001; Helfat & Eisenhardt, 2004; Liu & Hsu, 2011; Luo, 2002).

Thus, this paper aims to identify how corporate parents can add value in a dynamic and uncertain world by applying the dynamic capabilities framework to the corporate parenting strategy – defined as “the consistent and effective combination of value creating activities, resulting either from direct corporate parenting activities or from the composition of the portfolio” (Kruehler et al., 2012, p. 6). This review begins by outlining the key theoretical developments underlying the dynamic capability framework, thereby identifying how this perspective can be applied to corporate strategy. Following this, the academic discussions regarding two key aspects of corporate parenting strategy – corporate parenting activities and the composition of the corporate portfolio – will be discussed. By examining these two aspects from a dynamic capabilities view, this review identifies the role that corporate capabilities and diversification will play in an increasingly uncertain and dynamic world. This paper concludes by highlighting a number of areas for future research, based on the literature presented in this report.

Theoretical Approaches to Corporate-Level Strategy

In this review, corporate parenting strategy will be viewed from a dynamic capabilities perspective – which suggests that sustained competitive advantage is achieved through the processes a firm utilises to adapt, integrate, reconfigure, gain and release resources in response to changing environments (Eisenhardt & Martin, 2000; Teece & Pisano, 1994; Teece, Pisano, & Shuen, 1997). This section will identify the theoretical argument behind this perspective, firstly highlighting the underlying role of the resource-based view (RBV), before examining the need to expand this paradigm to a dynamic capabilities perspective. Although the discussions around RBV and dynamic capabilities originated in the context of business-

This assignment was for MANT437 Strategic Management
Supervised by Dr Conor O’Kane

level competitive strategy, these concepts have since been widely applied to corporate-level strategy (C. Bowman, Ward, & Kakabadse, 2002; Liu & Hsu, 2011; Untiedt, Nippa, & Pidun, 2012; Wan, Hoskisson, Short, & Yiu, 2011).

RBV theory argues that firms are unique with respect to their internal strategic resources, a resource heterogeneity that persists over time (Barney, 1991; Eisenhardt & Martin, 2000; Teece et al., 1997). Furthermore, it is assumed that the resources which provide sustained competitive advantage – i.e. those resources that are valuable, rare, inimitable and non-substitutable (Barney, 1991) – cannot be acquired on the open market nor competed away through duplication by other firms (Barney, 1991; Døving & Gooderham, 2008; Eisenhardt & Martin, 2000; Ghemawat, 2002; Teece et al., 1997; Wan et al., 2011). Thus, through the lens of the RBV, the multi-business corporation is seen as an important entity through which strategic resources can be fully exploited, enabling companies to capture rents on scarce assets that would otherwise be underutilized (C. Bowman et al., 2002; Collis et al., 2007; Døving & Gooderham, 2008; Ng, 2007; Teece et al., 1997; Wan et al., 2011).

Building on the RBV, the dynamic capabilities perspective has emerged as an additional paradigm to explain competitive advantage (Eisenhardt & Martin, 2000; Teece & Pisano, 1994; Teece et al., 1997). However, whereas the RBV assumes that firms can achieve sustained competitive advantage by exploiting and protecting current resources, the dynamic capabilities perspective challenges this view, arguing that it is too static for today’s complex and uncertain business environment (C. Bowman et al., 2002; Døving & Gooderham, 2008; Eisenhardt & Martin, 2000; Ghemawat, 2002; Teece & Pisano, 1994; Teece et al., 1997). As such, the dynamic capabilities approach differs from the RBV in its inference that firms must not only extract benefits from current resources and capabilities, but that they must also adapt and reconfigure these resources and capabilities to pursue new resources/capabilities that produce new value-creating strategies (Døving & Gooderham, 2008; Eisenhardt & Martin, 2000; Ghemawat, 2002; Liu & Hsu, 2011; Teece & Pisano, 1994). As a firm’s ability to achieve these innovative forms of competitive advantage derives from the its distinctive processes and strategic resources that have been build up over time and conditioned by its history (Teece & Pisano, 1994), dynamic capabilities are considered to be difficult to replicate and imitate, therefore provide a source of sustained competitive advantage (Eisenhardt & Martin, 2000; Teece & Pisano, 1994; Teece et al., 1997).

A number of scholars have adopted a dynamic capabilities perspective to examine corporate-level strategy in an attempt to explain how corporations can achieve competitive advantage in an increasingly complex and dynamic environment. For example, based on a case study of a Fortune 100 high-technology corporation, Galunic and Eisenhardt (2001) identify that dynamic capabilities enable corporations to reconfigure their resources and respond to the fact that markets and business divisions coevolve. Similarly, Helfat and Eisenhardt (2004) illustrate that dynamic capabilities enable firms to achieve inter-temporal economies of scope – the simultaneous sharing of resources as they exit some product markets while also entering others – highlighting that corporations do indeed evolve over time. Luo (2002) extends this discussion to the case of multi-national enterprise subsidiaries in China, providing evidence that both the exploitation and development of dynamic capabilities reduces the contextual hazards such as environmental complexity and structural uncertainty. Furthermore, Døving and Gooderham (2008) draw on evidence from a quantitative study of Norwegian accountancy firms to illustrate that a firm's dynamic capabilities – specifically, the human capital, routines and systems aimed at reconfiguring the firm's competency base – have a significant impact in determining the scope of the firm.

To clarify, the importance of a dynamic capability approach to corporate-level strategy is underpinned by an increasing complexity in the business environment (Bryan, 2002; Døving & Gooderham, 2008; Ghemawat, 2002; Ng, 2007; Teece & Pisano, 1994; Teece et al., 1997). In the economy of the past – in which products were durable, customer needs were stable, and industry and national borders were well defined – it was believed that firms could achieve sustained competitive advantage by exploiting existing resources and competencies (Barney, 1991; Døving & Gooderham, 2008; Ghemawat, 2002). However, significant changes – including globalisation, rapid advances in technology, shortened product cycles, and the merging of market and industry structures – have made the business environment a more complex and uncertain place (Bryan, 2002; Ghemawat, 2002; Liu & Hsu, 2011; Stalk et al., 1992; Teece & Pisano, 1994). As such, academic and business leaders alike have emphasized that managers must aligned their strategy with these changes by adopting a dynamic perspective to their firm's competitive success (Adner & Helfat, 2003; Bryan, 2002; Raisch & Birkinshaw, 2008; Stalk et al., 1992; Teece & Pisano, 1994). It is postulated that the competitive success of firms in an uncertain and ever-changing environments derives from an ability to execute timely responsiveness by moving rapidly in and out of products, markets or businesses (A. Chen, Fabozzi, & Huang, 2012; Stalk et al., 1992; Teece & Pisano, 1994; Teece et al., 1997). It is this responsiveness that is underpinned by a firm's ability to adapt to the environment, integrate those changes, and reconfigure their strategy and processes to reflect their changes – that is, the firm's dynamic capabilities (Liu & Hsu, 2011; Teece & Pisano, 1994).

In light of the theoretical developments highlighted above, this paper will examine corporate parenting strategies from a dynamic capabilities perspective to identify how corporate parents can adapt their activities and portfolios in response to environmental changes. To do this, two aspects of corporate strategy will be examined in the next following sections: corporate parenting activities and portfolio composition.

Dynamism in Corporate Parenting Activities

The relationship between corporate level strategy and performance is perhaps one of the most studied, yet least conclusive areas of research in strategic management (Benito-Osorio, Guerras-Martín, & Zuñiga-Vicente, 2012; Collis et al., 2007; Kruehler et al., 2012; McGahan & Porter, 2002; Palich, Cardinal, & Miller, 2000; Untiedt et al., 2012; Wan et al., 2011). Early research examining multi-business corporations contended that corporate strategy has little or no impact on firm performance (E. Bowman & Helfat, 2001; Goold et al., 1998; Rumelt, 1991; Schmalensee, 1985). For example, drawing on a study of 456 manufacturing corporations, Schmalensee (1985) reveal that corporate differences between firms do not account for any variance in firm profitability, while industry effects explain up to 75 percent of the variability. Rumelt (1991) reports similar findings, suggesting that corporate effects have no impact on the variance in firm performance for firms with more than 1 percent market share, and a negligible amount of variance (1.6 percent) for firms with less than 1 percent market share. Adding to these findings, several finance-based studies have reported that the presence of a corporate parent can negatively impact a firm's valuation (e.g. Berger & Ofek, 1995; Klein & Saidenberg, 2010; Rajan, Servaes, & Zingales, 2000). This negative relationship has been attributed to a number of factors including an overinvestment into unrelated segments (Berger & Ofek, 1995) and inefficient resource allocation if business units receive a "fair" share of capital budget, rather than a value-maximizing share (Rajan et al., 2000).

In contrast to these findings, there is much evidence to support that corporate parents do indeed add value (Adner & Helfat, 2003; C. Bowman et al., 2002; E. Bowman & Helfat, 2001; Goold et al., 1998). Roquebert, Phillips, and Westfall (1996) provide evidence from a study of over 16,000 corporations, to suggest that corporate effects can account for up to 18 percent of the variation in business unit profitability between firms. This finding is emulated by Chang and Singh (2000), who report that corporate differences account for significant amounts of variance in firm profitability – up to 27.3 percent in medium-sized firms (firms with sales of US$171 million to US$893 million). McGahan and Porter (2002) further build on this support for corporate strategy, identifying that the influence of corporate effects explains 23.7% of the variation in performance for diversified firms, operating in two or more industry segments.

In recognition of the ambiguity regarding the benefit of corporate strategy, a number of scholars have concluded that corporate parents can both add and destroy value, depending on the activities they pursue (Ambrosini & Bowman, 2003; Collis, 1996; Goold et al., 1998; Kruehler et al., 2012). As such, significant research has been conducted in attempts to identify which parenting activities can add value for business units, and which activities ultimately destroy value. In doing so, academics argue that to justify their existence, corporate parents must create more value to businesses units than cause they cause, by focusing towards *value-adding activities* and away from *value-destroying activities* (Ambrosini & Bowman, 2003; Collis, 1996; Goold et al., 1998; Kruehler et al., 2012). Before identifying the importance of a dynamic capabilities perspective when assessing parenting activities, it is first essential to discuss the value-adding and value-destroying activities identified the literature.

Value-Adding Activities of Corporate Parents

Although many value-adding activities have been identified throughout academic literature, scholars converge on four sets of corporate parenting roles that can create value for business units: coordination, control, leverage and learning (Ambrosini & Bowman, 2003; C. Bowman et al., 2002; Collis et al., 2007; Kruehler et al., 2012; Markides & Williamson, 1994). Perhaps the most important role for corporate parents is the coordination of several business units, typified through two key activities – strategic guidance and resource allocation (Ambrosini & Bowman, 2003; Collis et al., 2007; Kruehler et al., 2012). For one, scholars argue that corporate parents cultivate better strategic decisions than would otherwise be skewed by the limited perspective of individual business (Adner & Helfat, 2003; Ambrosini & Bowman, 2003; E. Bowman & Helfat, 2001; Goold et al., 1998; Kruehler et al., 2012). This benefit is illustrated in the numerous studies that highlight the presence of corporate effects on firm performance, as noted in the previous section (e.g. Chang & Singh, 2000; McGahan & Porter, 2002; Roquebert et al., 1996). A second coordinative activity through which corporate parents can add value is the allocation and deployment of capital and strategic resources – arising from the assumption that corporate hierarchies distribute resources more effectively than is possible in the open market (Adner & Helfat, 2003; Collis et al., 2007; Kruehler et al., 2012). Indeed, based on a study of 1,344 Taiwanese high technology firms, H. Chen and Hsu (2010) provide empirical evidence to suggest that resource allocation plays a significant role in determining firm performance. Similarly, Henard and McFadyen (2012) demonstrate that allocation of both finanical resources and human capital are positively assocated with new product development success. However, Bakay, Elkassabgi, and Moqbel (2011) provide a caveat for resource allocation – illustrating that although allocation of capital is positively associated with return on assets, firm performance may suffer if this capital is allocated in inefficent ways (e.g. towards inapproproate research and development projects).

A second area through which a corporate parent may provide value to business units is through control systems that monitor performance in greater detail than possible by external investors (C. Bowman et al., 2002; Collis, 1996; Collis et al., 2007; Kruehler et al., 2012). Hill and Snell (1988) for example provide evidence to suggest that when higher powers of control exist – such as corporate parents or shareholders – firm performance increases due to increased accountability associated with these layers of control. J. Chen, Chen, and Chung (2006) apply this argument to the case of New Zealand companies, illustrating that governance mechanisms enhance firm performance, in part due to the high degree of control that can be exerted by corporate parents.

Thirdly, corporate parents may create value by leveraging resources across several business units (Ambrosini & Bowman, 2003; C. Bowman et al., 2002; Collis et al., 2007; Kruehler et al., 2012; Markides & Williamson, 1994). A primary benefit of this role is the reconfiguration and consolidation of core resources or support activities to achieve economies of scale (Ambrosini & Bowman, 2003; C. Bowman et al., 2002; Kruehler et al., 2012; Markides & Williamson, 1994). Ambrosini and Bowman (2003) for example, identify that by leveraging resources across business units, corporations can achieve various synergies in their portfolio. Additionally, as support activities are consolidated into one central unit, it is postulated that corporations can achieve economies of scale in back office functions, thereby reducing the administrative costs of individual units (C. Bowman et al., 2002; Collis et al., 2007; Kruehler et al., 2012). Providing empirical evidence for this activity, St. John and Harrison (1999) highlight that the synergies associated with economies of scale can increase profitability through both superior cost savings and improved competitive position.

Finally, scholars argue that corporate parents can add value to their subunits by arranging resources and implementing processes to encourage learning throughout the organisation (Ambrosini & Bowman, 2003; C. Bowman et al., 2002; Markides & Williamson, 1994). It is proposed that by encouraging business units to devote resources to innovation and encouraging experimentation, corporations can provoke learning, potentially eliminating organisational slack (Ambrosini & Bowman, 2003). Subsequently, by providing business units with the necessary resources and processes to facilitate learning, corporations can benefit from incremental adaptation to the changing environment that is lead from the bottom-up (Ambrosini & Bowman, 2009).

Value-Destroying Activities of Corporate Parents

Despite the evidence in support of corporate parents, research suggests that there are several ways that they may also be detrimental to firm performance. A primary concern here is that corporate executives may be too far removed from the day-to-day affairs of each business unit, potentially making their strategic decisions less-soundly based than those made by managers at the business level (Goold et al., 1998; Kruehler et al., 2012). Additionally, several scholars warn that the personal motivations of corporate executives may hinder firm performance. As, Shleifer and Vishny (1989) argue that corporate managers may inevitably make decisions that destroy firm value as they attempt to increase their remuneration, reduce the risk of being replaced by spreading risk, and obtain greater power through the extension of firm scope. Drawing from a sample of 472 industrial companies, Berger, Ofek, and Yermack (1997) provide empirical evidence to support this, illustrating that CEOs may fund unfavourable projects or invest in industries that are familiar, yet provide limited potential, to reduce personal risk or increase power. Additionally, Casamatta and Guembel (2010) highlight the political factors that may cause corporate parents to destroy value, identifying that in the case of strategic change, incumbent executives may have a vested interest in seeing a new strategy fail as a way to save face and protect reputations. Corporate parents can also destroy value through the added complexity associated with internal coordination processes and administrative costs (Goold et al., 1998; Jones & Hill, 1988; Kruehler et al., 2012). Jones and Hill (1988) for example argue that performance monitoring becomes increasingly difficult the more that firms exploit economies of scope and share resources. The authors illustrate that there is a tradeoff between the marginal economic benefit of internalisation and the marginal bureaucratic cost of coordinating the internalised entity – to the extent that the bureaucratic costs eventually outweigh the marginal economic benefit (Jones & Hill, 1988).

Adopting a Dynamic Capabilities Perspective to Parenting Activities

As the previous discussion indicates, corporate parents can both add and destroy value – depending on the activities they perform and their motivations for doing so. Consequently, many academics argue that the corporate parent must undertake activities that ensure it adds more value than cost to business units, and also more value than these units would otherwise achieve as stand-alone entities (Ambrosini & Bowman, 2003; Campa & Kedia, 2002; Collis et al., 2007; Goold et al., 1998; Kruehler et al., 2012). However, this approach to corporate parenting activities is challenged by claims that it is too static and narrow focused for the contemporary business environment (C. Bowman et al., 2002; Markides & Williamson, 1994; Stalk et al., 1992). This section addresses this challenge, identifying two factors that highlight the need to adopt a dynamic perspective of parenting activities: the short-lived advantage of various activities and the growing uncertainty of the business environment.

Firstly, a number of authors argue that many parenting activities provide short-lived advantages (C. Bowman et al., 2002; Markides & Williamson, 1994; Stalk et al., 1992). As Markides and Williamson (1994) argue, parenting advantage that is based on exploiting existing resources – i.e. economies of scale or control-based activities – only ever provide companies with short-term advantage, as these advantages can be easily replicated by other firms. Indeed, the very nature of competition drives rivals to continuously improve their own corporate activities or imitate those performed by others (Stalk et al., 1992; Teece & Pisano, 1994). Furthermore, C. Bowman et al. (2002) acknowledge that corporate activities which exploit a firm's current resources suffer from diminishing returns over time, as maximum efficiencies are reached and leverage advantages are fully exploited. As such, firms must look past the short-lived benefits of cost and efficiency-based activities and focus on parenting activities that create long-term value to business units (C. Bowman et al., 2002; Markides & Williamson, 1994). In essence, this ability requires corporations to develop dynamic capabilities that enable it to leverage and reconfigure its existing resources and activities in ways that create new strategic resources, or open up opportunities into new business altogether (C. Bowman et al., 2002; Markides & Williamson, 1994; Teece & Pisano, 1994). Thus, by adopting a dynamic capabilities perspective to parenting activities, it is evident that long-term value creation arises from the activities that focus on reconfiguring resource bundles and facilitate learning – i.e. coordinative and learning-based activities – rather than those focused towards consolidation and control. This distinction is essential to ensure the long-term success of the multi-business corporation.

Secondly, as a result of the growing uncertainty in the contemporary business environment, it is increasingly difficult for firms to align their strategies with environment changes (Raisch & Birkinshaw, 2008; Teece & Pisano, 1994; Teece et al., 1997). This issue is particularly difficult for corporate parents, given the fact that they are removed from the day-to-day realities of the business units (Goold et al., 1998; Kruehler et al., 2012). Subsequently, several scholars argue that corporations need to both exploit existing capabilities, while also exploring new opportunities to adapt to this uncertainty (Liu & Hsu, 2011; O'Reilly III & Tushman, 2004; Raisch & Birkinshaw, 2008; Teece & Pisano, 1994; Teece et al., 1997). This requires corporations to be agile and flexible in their parenting activities, which – as the literature in this review confirms – is underpinned by a firm's dynamic capabilities (A. Chen et al., 2012; Liu & Hsu, 2011; Stalk et al., 1992; Teece & Pisano, 1994; Teece et al., 1997).

Thus, on reflection of the literature, it is apparent that there is strong evidence supporting both the value-adding and value-destroying roles of corporate parents – indicating that these parents must make careful decisions to ensure that they are adding value rather than destroying it. However, it is also clear that these decisions will become increasingly more challenging in a complex and uncertain environment, highlighting the need for corporate-level dynamic capabilities. Building on this discussion, the next section focuses on the role of dynamic capabilities in a second component of corporate parenting advantage: the composition of the portfolio.

Dynamism in Corporate Portfolio Composition

To clarify, the previous section has reviewed the ongoing debate around parenting activities – identifying both the value-adding and value-destroying activities presented throughout the literature, while also supporting the use of a dynamic capabilities view to approach these activities. However, it has been acknowledged by several scholars that it is not enough for corporate parent to simply select the activities they wish to perform (Kruehler et al., 2012; Liu & Hsu, 2011). Instead, the composition of a firm's portfolio has been acknowledged as an underlying determinant of the value that a corporate parent can provide through its parenting activities (Kruehler et al., 2012; Liu & Hsu, 2011). Although there has been a plethora of research examining the link between portfolio composition and firm performance, the "optimal" composition to facilitate corporate value-creation remains contentious (Benito-Osorio et al., 2012; Ghemawat, 2002; Liu & Hsu, 2011; Untiedt et al., 2012; Wan et al., 2011). This section will examine the academic discussion around portfolio composition – specifically the level of diversification pursued by a firm – to identify how a dynamic capabilities perspective can enable corporations to arrange their portfolio composition to add value in an increasingly dynamic world.

The Benefits and Limits of Diversification

There is an overwhelming consensus throughout the literature that diversification provides firms with enhanced performance, suggesting that diversified corporations outperform focused corporations (Benito-Osorio et al., 2012; Ghemawat, 2002; Jose, Nichols, & Stevens, 1986; Liu & Hsu, 2011; Miller, 2006; Untiedt et al., 2012; Wan et al., 2011). However, given the widespread interest in corporate performance, the theoretical explanations for this positive relationship are less unanimous (Benito-Osorio et al., 2012; Liu & Hsu, 2011; Palich et al., 2000; Wan et al., 2011). For example, scholars promoting the IO theory argue that diversification provides corporations a way to establish and exploit market power advantages over competitors, thereby assuming a directly linear relationship between diversification and firm performance (Benito-Osorio et al., 2012; Liu & Hsu, 2011; Palich et al., 2000; Wan et al., 2011). However, a number of studies have challenged the linearity of this relationship, suggesting that there may be a limit to the benefits of diversification. Grant, Jammine, and Thomas (1988) for example illustrate that although diversification is positively related to profitability, after a certain point, increases in diversity lead to a reduction in profitability. Additionally, from a meta-analysis of 55 studies, Palich et al. (2000) suggest that there is overwhelming support that diversification enhances firm performance up to a point, after which it causes performance problems. More recently, Liu and Hsu (2011) illustrate this relationship in a study 312 manufacturing firms, highlighting that this "inverted U-shaped" relationship between diversification and firm performance is exhibited in both vertical and horizontal diversification.

In light of these studies, an increasing number of academics have adopted a RBV perspective to examine diversification, arguing that as a firm's strategic resources cannot be easily replicated or purchased, diversification enables corporations to realise the *true* intrinsic value of its strategic resources (C. Bowman et al., 2002; Collis et al., 2007; Døving & Gooderham, 2008; Ng, 2007; Teece et al., 1997; Wan et al., 2011). By doing so, RBV theory suggests that corporations can achieve several synergies to enhance the use of its unique resources, such as economies of scope, economies of scale, and the exploitation of underutilized (Ng, 2007; Palich et al., 2000; Wan et al., 2011). Furthermore, the RBV assumes that the benefits from a diversification strategy are contingent on the corporation's ability to share resources across multiple business units, and thus postulates that as a firm diversifies into unrelated businesses, it may reach a point where the resources become too complex to manage, or that the corporation's core resources provide little value to the new businesses (Palich et al., 2000; Wan et al., 2011). It is this notion that therefore reflects the inverted-U shaped relationship between diversification and performance mentioned – whereby corporations that extent their portfolio composition into unrelated businesses underperform those that pursue related diversification (Benito-Osorio et al., 2012; Grant et al., 1988; Liu & Hsu, 2011; Palich et al., 2000; Wan et al., 2011).

Adopting a RBV to examine diversification also helps to identify the link between parenting activities and diversification; and why portfolio composition is considered a critical antecedent to the value created through parenting activities. Relatedness from the RBV perspective is based on the underlying resource requirements for each business unit in a portfolio (Liu & Hsu, 2011; Ng, 2007). This definition – as opposed to the market or customer based relatedness that previous studies adopted (Ghemawat, 2002; Goold et al., 1998; Untiedt et al., 2012; Wan et al., 2011) – reflects the coordinative role of the corporate parent whereby value is added through the allocation and deployment of firm resources (see *Value-Adding Activities of Corporate Parents*). It can be therefore concluded that when firms pursue related diversification (as defined by the RBV) there is greater opportunity for corporate parents to add value through coordinative and leverage-based parenting activities. Indeed, by diversifying into businesses with similar resource requirements, corporate parents can not only pursue economies of scale and reduce duplication of central services; they can also reconfigure firm resources to share resources between different business units (Collis et al., 2007; Markides & Williamson, 1994).

Adopting a Dynamic Capabilities Perspective to Portfolio Composition

As the previous section presents, the prevailing view of portfolio composition argues that firms diversify into businesses with related resource requirements, avoiding businesses whose resource requirements do not match the resources owned by the corporation. However, recent studies challenge the degree of the related diversification proposed by the RBV, with an increasing amount of empirical evidence supporting diversification beyond the levels predicted by the RBV (Campa & Kedia, 2002; Døving & Gooderham, 2008; Helfat & Raubitschek, 2000; McGrath & Nerkar, 2004; Ng, 2007; Wan et al., 2011). For example, in a study of three technology-intensive firms, Helfat and Raubitschek (2000) illustrate that firms can successfully expand into several unrelated product markets by leveraging their internal knowledge. Similarly, based on a study of 31 large pharmaceutical corporations, McGrath and Nerkar (2004) provide further evidence for unrelated product diversification, illustrating that the decision to pursue new technological areas is influenced less by the corporation's prior experience or resource investments and more by the possibilities presented by these opportunities. Furthermore, Campa and Kedia (2002) draw on a sample of over 8,000 firms to conclude that corporations which diversify into multiple market segments perform at a premium, despite being traded at a discount prior to diversification.

Consequently, several authors have stressed the need to move away from resource-based approaches to portfolio composition, and focus instead on diversification that builds on or extends a corporation's capabilities and competencies (Eisenhardt & Martin, 2000; Liu & Hsu, 2011; Ng, 2007; Teece et al., 1997). By simultaneously emphasising a focus on both exploitation of current resources and exploration of opportunities to build new capabilities resources, a dynamic capabilities approach to portfolio composition accounts for levels of diversification beyond the realms predicted by the RBV (Campa & Kedia, 2002; Díez-Vial, 2007; Helfat & Raubitschek, 2000; Liu & Hsu, 2011; Ng, 2007; Palich et al., 2000; Teece et al., 1997). For example, Kor and Leblebici (2005) illustrate that the dynamic capabilities involved in developing and deploying human capital are crucial determinants of the level of diversification in US law firms. Similarly, Díez-Vial (2007) show that firms in the Spanish meat industry often expand their boundaries beyond the limits proposed by the RBV. Døving and Gooderham (2008) extend these findings to professional service firms, providing evidence to suggest that dynamic capabilities have a significant impact on determining the scope of services offered in 254 Norwegian accounting firms. Furthermore, Liu and Hsu (2011) draw from a study of 312 Taiwanese manufacturing companies to illustrate that firms who focus on exploiting current resources express greater levels of vertical differentiation, while those who focus on building new capabilities express greater levels of horizontal differentiation.

An additional benefit to a capabilities approach to portfolio composition is that it reflects the need to take a dynamic perspective on diversification to address the rapidly changing external environment (Adner & Helfat, 2003; C. Bowman et al., 2002; A. Chen et al., 2012; Døving & Gooderham, 2008; Stalk et al., 1992; Teece et al., 1997). Indeed, if multi-business corporations are to respond to the rapidly changing environment, they require the dynamic capabilities to be able to adapt and reconfigure their current business units, just as much as their current resources and capabilities (Adner & Helfat, 2003; Bryan, 2002; A. Chen et al., 2012; Døving & Gooderham, 2008; Goold et al., 1998). For example, Nicholls-Nixon and Woo (2003) illustrate this in the US pharmaceutical industry, highlighting that firms faced with technological change can enhance their ability to respond by acquiring unrelated businesses in an attempt to assimilating and exploiting new knowledge. Additionally, as the benefits from parenting advantage begin to diminish (see *Adopting a Dynamic Capabilities Perspective to Parenting Activities*), it is argued that corporate parents should attempt to change its portfolio composition, divesting business that are no longer receiving value from the parent and acquiring those that can benefit (C. Bowman et al., 2002).

Thus, it can be seen that a dynamic capabilities approach to diversification a critical extension to the RBV, expanding the limits of diversification into business units that position the corporation well to respond to market uncertainty – by ensuring that it operates in business units that both exploit current resources and explore new opportunities.

Creating Parenting Advantage in the Future

The aim of this literature review has been to identify the role of the dynamic capabilities framework in corporate strategy. Based on the foregoing discussion, it can be seen that dynamic capabilities play a crucial role in two key aspects of corporate parenting strategy: corporate parenting activities and portfolio composition. However, despite the significant advances that have been made in academic literature in regards to these two aspects, it is clear that future research is required to identify the role of corporate parents in the future economy. Thus, based on the review thus far, I propose that two areas warrant further research: the development of concrete measures to identify dynamic corporate parenting activities and an examination of the temporal changes to the relationship between diversification and firm performance.

Although a considerable stream of literature has focused on examining the benefits of various corporate parenting activities to firm performance (see *Value-Adding Activities of Corporate Parents*), more research is required to develop concrete measures to identify which of these activities create value in ambiguous and uncertain environments (Adner & Helfat, 2003; Ambrosini & Bowman, 2009; Vogel & Güttel, 2013). Indeed, the few empirical studies that exist in the dynamics capabilities field are quantitatively focused, meaning that although they highlight the presence of dynamic capabilities and the impact these have on firm performance, more qualitative research is required to enable a greater understanding of how dynamic capabilities can be deployed and developed in practice (Ambrosini & Bowman, 2009).

Secondly, there is a shortage of research examining how the impact of diversification on firm performance changes over time (Benito-Osorio et al., 2012; Palich et al., 2000; Wan et al., 2011). Despite extensive research into diversification, only a few studies have examined the effects of diversification over multiple decades (Benito-Osorio et al., 2012), with most research based on cross-sectional studies or drawing from short-time periods (Palich et al., 2000). As such, the existing literature does not address how diversification processes evolve over time, nor whether related or unrelated diversification provides greater benefit in changing and uncertain environments (Adner & Helfat, 2003; Benito-Osorio et al., 2012; Ng, 2007; Wan et al., 2011). Ng (2007) acknowledge this issue, identifying that in uncertain conditions, corporations may have greater incentives to diversify into unrelated businesses, both as a way to increase furture opportunities and overcome inefficent markts. Similarly, Wan et al. (2011) postulate that while related diversifers are known to experience greater firm performance in stable or mature environments, more research is required to determine if this is the case in changing environments, or whether a diversifed portfolio provides firms with greater opportunities in such times of uncertainty.

Conclusion

This literature review has examined the role of dynamic capabilities in corporate parenting strategy. It highlights that by adopting a dynamic capability approach to two aspects of corporate parenting strategy – parenting activities and portfolio composition – corporations can ensure they provide long-term value to business units, while also remaining agile and flexible to respond to environmental changes. Specifically, in terms of parenting activities, the dynamic capabilities approach illustrates that firms should focus on activities that create new resource combinations and businesses rather than only focusing on those that exploit existing resources. As for portfolio composition, the dynamic capabilities view highlights that firms should focus on capability-based diversification and how the businesses within its portfolio can both help reconfigure and enhance the corporation's underlying resources and capabilities. Finally, it is recommended that future research look into the development of concrete measures to identify dynamic corporate parenting activities and an examination of the temporal changes to the diversification – two areas that will significantly strength the prescriptability of a dynamic capabilities approach to corporate parenting strategy.

References

Adner, R., & Helfat, C. E. (2003). Corporate Effects and Dynamic Managerial Capabilities. *Strategic Management Journal, 24*(10), 1011-1025. doi: 10.1002/smj.331

Ambrosini, V., & Bowman, C. (2003). Managerial Consensus and Corporate Strategy:: Why Do Executives Agree or Disagree about Corporate Strategy? *European Management Journal, 21*(2), 213-221. doi: 10.1016/S0263-2373(03)00016-1

Ambrosini, V., & Bowman, C. (2009). What are Dynamic Capabilities and are they a useful Construct in Strategic Management? *International Journal of Management Reviews, 11*(1), 29-49. doi: 10.1111/j.1468-2370.2008.00251.x

Bakay, A., Elkassabgi, A., & Moqbel, M. (2011). Resource Allocation, Level of International Diversification and Firm Performance. *International Journal of Business and Management, 6*(12), 87-93.

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management, 17*(1), 99-120.

Benito-Osorio, D., Guerras-Martín, L. Á., & Zuñiga-Vicente, J. Á. (2012). Four decades of research on product diversification: a literature review. *Management Decision, 50*(2), 325-344. doi: doi:10.1108/00251741211203597

Berger, P. G., & Ofek, E. (1995). Diversification's Effect on Firm Value. *Journal of Financial Economics, 37*, 39-65.

Berger, P. G., Ofek, E., & Yermack, D. L. (1997). Managerial Entrenchment and Capital Structure Decisions. *Journal of Finance, 52*(4), 1411-1438.

Bowman, C., Ward, K., & Kakabadse, A. (2002). Congruent, Divergent and Incoherent Corporate Level Strategies. *European Management Journal, 20*(6), 671-679.

Bowman, E., & Helfat, C. E. (2001). Does Corporate Strategy Matter? *Strategic Management Journal, 22*, 1-23.

Bryan, L. L. (2002). Just-in-Time Strategy for a Turbulent World. *The McKinsey Quarterly, Special Edition: Risk and Resiliance*, 17-27.

Campa, J. M., & Kedia, S. (2002). Explaining the Diversification Discount. *Journal of Finance, 57*(4), 1731-1762.

Casamatta, C., & Guembel, A. (2010). Managerial Legacies, Entrenchment, and Strategic Inertia. *Journal of Finance, 65*(6), 2403-2436. doi: 10.1111/j.1540-6261.2010.01619.x

Chang, S. J., & Singh, H. (2000). Corporate and Industry Effects on Business Unit Competitive Position. *Strategic Management Journal, 21*, 739-752.

Chen, A., Fabozzi, F. J., & Huang, D. (2012). Optimal Corporate Strategy Under Uncertainty. *Applied Economics, 45*(20), 2877-2882. doi: 10.1080/00036846.2012.684791

Chen, H., & Hsu, C.-W. (2010). Internationalization, resource allocation and firm performance. *Industrial Marketing Management, 39*(7), 1103-1110. doi: 10.1016/j.indmarman.2009.10.001

Chen, J., Chen, D. H., & Chung, H. (2006). Corporate control, corporate governance and firm performance in New Zealand. *International Journal of Disclosure & Governance, 3*(4), 263-276.

Collis, D. (1996). Corporate Strategy in Multibusiness Firms. *Long Range Planning, 29*(3), 416-418.

Collis, D., Young, D., & Goold, M. (2007). The Size, Structure, and Performance of Corporate Headquarters. *Strategic Management Journal, 28*, 383-405. doi: 10.1002/smj.595

Díez-Vial, I. (2007). Explaining Vertical Integration Strategies: Market Power, Transactional Attributes and Capabilities. *Journal of Management Studies, 44*(6), 1017-1040. doi: 10.1111/j.1467-6486.2007.00693.x

Døving, E., & Gooderham, P. N. (2008). Dynamic Capabilities as Antecedents of the Scope of Related Diversification: The Case of Small Firm Accountancy Practices. *Strategic Management Journal, 29*(8), 841-857. doi: 10.1002/smj.683

Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic Capabilities: What are They? *Strategic Management Journal, 21*(10/11), 1105.

Galunic, D. C., & Eisenhardt, K. (2001). Architectural Innovation and Modular Corporate Forms. *Academy of Management Journal, 44*(6), 1229-1249.

Ghemawat, P. (2002). Competition and Business Strategy in Historical Perspective. *Business History Review, 76*(Spring), 37-74.

Goold, M., Campbell, A., & Alexander, M. (1998). Corporate Strategy and Parenting Theory. *Long Range Planning, 31*(2), 308-314.

Grant, R. M., Jammine, A. P., & Thomas, H. (1988). Diversity, Diversification, and Profitability Among British Manufacturing Companies 1972-84. *Academy of Management Journal, 31*(4), 771-801. doi: 10.2307/256338

Helfat, C. E., & Eisenhardt, K. (2004). Inter-Temporal Economies of Scope, Organizational Modularity, and the Dynamics of Diversificaiton. *Strategic Management Journal, 25*, 1217-1232. doi: 10. IOO2/smj.427

Helfat, C. E., & Raubitschek, R. S. (2000). Product Sequencing: Co-Evolution of Knowledge, Capabilities and Products. *Strategic Management Journal, 21*(10/11), 961.

Henard, D. H., & McFadyen, M. A. (2012). Resource Dedication and New Product Performance: A Resource-Based View. *Journal of Product*

Innovation Management, 29(2), 193-204. doi: 10.1111/j.1540-5885.2011.00889.x

Hill, C. W. L., & Snell, S. A. (1988). External Control, Corporate Strategy, and Firm Performance in Research-Intensive Industries. *Strategic Management Journal, 9*(6), 577-590.

Jones, G. R., & Hill, C. W. L. (1988). Transaction Cost Analysis of Strategy-Structure Choice. *Strategic Management Journal, 9*(2), 159-172.

Jose, M. L., Nichols, L. M., & Stevens, J. L. (1986). Contributions of Diversification, Promotion, and R&D to the Value of Multiproduct Firms: A Tobin's q Approach. *Financial Management, 15*(4), 33-42.

Klein, P. G., & Saidenberg, M. R. (2010). Organizational Structure and the Diversification Discount: Evidence from Commercial Banking. *The Journal of Industrial Economics, 58*(1), 127-155.

Kor, Y. Y., & Leblebici, H. (2005). How do Interdependencies among Human-Capital Deployment, Development, and Diversification Strategies affect Firms' Financial Performance? *Strategic Management Journal, 26*, 967-985.

Kruehler, M., Pidun, U., & Rubner, H. (2012). How to assess the corporate parenting strategy? A conceptual answer. *Journal of Business Strategy, 33*(4), 4-17. doi: doi:10.1108/02756661211242663

Liu, H. Y., & Hsu, C. W. (2011). Antecedents and consequences of corporate diversification. *Management Decision, 49*(9), 1510-1534. doi: doi:10.1108/00251741111173961

Luo, Y. (2002). Capability Exploitation and Building in a Foreign Market: Implications for Multinational Enterprises. *Organization Science, 13*(1), 48-63.

Markides, C. C., & Williamson, P. J. (1994). Related Diversification, Core Competences and Corporate Performance. *Strategic Management Journal, 15*, 149-165.

McGahan, A. M., & Porter, M. E. (2002). What Do We Know About Variance in Accounting Profitability? *Management Decision, 48*(7), 834-851.

McGrath, R. G., & Nerkar, A. (2004). Real Options Reasoning and a New Look at the R&D Investment Strategies of Pharmaceutical Firms. *Strategic Management Journal, 25*(1), 1-21.

Miller, D. J. (2006). Technological diversity, related diversification, and firm performance. *Strategic Management Journal, 27*(7), 601-619.

Ng, D. W. (2007). A Modern Resource Based Approach to Unrelated Diversification. *Journal of Management Studies, 44*(8), 1481-1502. doi: 10.1111/j.1467-6486.2007.00719.x

Nicholls-Nixon, C. L., & Woo, C. Y. (2003). Technology Sourcing and Output of Established Firms in a Regime of Encompassing Technological Change. *Strategic Management Journal, 24*(7), 651. doi: 10.1002/smj.329

O'Reilly III, C. A., & Tushman, M. L. (2004). The Ambidextrous Organization. *Harvard Business Review, 82*(4), 74-81.

Palich, L. E., Cardinal, L. B., & Miller, C. C. (2000). Curvilinearity in the Diversification-Performance Linkage: An Examination of Over Three Decades of Research. *Strategic Management Journal, 21*, 155-174.

Raisch, S., & Birkinshaw, J. (2008). Organizational Ambidexterity: Antecedents, Outcomes, and Moderators. *Journal of Management, 34*(3), 375-409. doi: 10.1177/0149206308316058

Rajan, R., Servaes, H., & Zingales, L. (2000). The Cost of Diversity: The Diversificaiton Discount and Inefficient Investment. *The Journal of Finance, 55*(1), 35-80.

Roquebert, J. A., Phillips, R. L., & Westfall, P. A. (1996). Markets vs. Management: What 'Drives' Profitability? *Strategic Management Journal, 17*, 653-664.

Rumelt, R. (1991). How Much Does Industry Matter? *Strategic Management Journal, 12*(3), 167-185.

Schmalensee, R. (1985). Do Markets Differ Much? *American Economic Review, 75*, 341-351.

Shleifer, A., & Vishny, R. W. (1989). Management entrenchment: The case of manager-specific investments. *Journal of Financial Economics, 25*(1), 123-139. doi: 10.1016/0304-405X(89)90099-8

St. John, C. H., & Harrison, J. S. (1999). Manufacturing-based relatedness, synergy, and coordination. *Strategic Management Journal, 20*(2), 129.

Stalk, G., Evans, P., & Shulman, L. E. (1992). Competing on Capabilities: The New Rules of Corporate Strategy. *Harvard Business Review, March-April*, 57-69.

Teece, D. J., & Pisano, G. (1994). The Dynamic Capabilities of Firms: an Introduction. *Industrial and Corporate Change, 3*(3), 537-556.

Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic Capabilities and Strategic Management. *Strategic Management Journal, 18*(7), 509-533.

Untiedt, R., Nippa, M., & Pidun, U. (2012). Corporate Portfolio Analysis Tools Revisited: Assessing Causes that May Explain Their Scholarly Disdain. *International Journal of Management Reviews, 14*(3), 263-279. doi: 10.1111/j.1468-2370.2011.00316.x

Vogel, R., & Güttel, W. H. (2013). The Dynamic Capability View in Strategic Management: A Bibliometric Review. *International Journal of Management Reviews, 15*, 426-446. doi: 10.1111/ijmr.12000

Wan, W. P., Hoskisson, R. E., Short, J. C., & Yiu, D. W. (2011). Resource-Based Theory and Corporate Diversification: Accomplishments and Opportunities. *Journal of Management, 37*(5), 1335-1368. doi: 10.1177/0149206310391804

The Impact of External Cooperation on Innovation Performance in Chinese SMEs

Matt Lowe

Abstract

In response to the rising costs and complexities of innovation, small and medium enterprises (SMEs) are increasingly turning to external cooperation partners in an attempt to overcome their inherent resource deficiency. Drawing from a survey of 257 Chinese SMEs, this paper examines the impact of these external collaborations on SME innovation performance. The results confirm that there is a significant positive relationship between inter-firm collaboration and innovation performance in SMEs. Similarly, it is found that interactions with financial institutions also have a significant positive impact on SME innovation performance. Interestingly, the findings reveal that interactions with government agencies have a significantly negative relationship with innovation performance. As such, these results confirm that external partners can provide SMEs with the necessary resources they require to overcome their inherent resource deficiency to enhance their innovation performance, and highlights concerns about the institutional environment for SMEs pursing innovation in China.

Introduction

In a hypercompetitive world characterised by rapid advances in technologies, shortened product life cycles and merged industry borders, companies find themselves in a race to establish competitive differentiation through innovation (Albors-Garrigós, Rincon-Diaz, & Igartua-Lopez, 2013; Bullinger, Auernhammer, & Gomeringer, 2004; Motohashi, 2008; Nieto & Santamaría, 2007; Tether, 2002; van de Vrande, de Jong, Vanhaverbeke, & de Rochemont, 2009). However, these very factors have also increased the costs and uncertainty surrounding research and development (R&D) projects and commercialization, leading to a growing consensus among scholars that enterprises can no longer afford to innovate alone (Bougrain & Haudeville, 2002; Bullinger et al., 2004; Hagedoorn, 2002; Nieto & Santamaría, 2007; Tether, 2002; van de Vrande et al., 2009; Wang & Zhou, 2011). Accordingly, innovation collaboration strategies – i.e. how firms actively participate in joint R&D and innovation projects with external partners (Hagedoorn, 2002; Tether, 2002) – have received increased attention in recent years. Through such strategies, it is acknowledge that firms can acquire the knowledge, complementary resources or capital required for innovation (Nieto & Santamaría, 2007; Tether, 2002; van de Vrande et al., 2009; Wang, Vanhaverbeke, & Roijakkers, 2012; Zeng, Xie, & Tam, 2010); reduce the costs of innovation (van de Vrande et al., 2009; Wang et al., 2012); minimize innovation risks (Bullinger et al., 2004; Tether, 2002; Wang et al., 2012; Zeng et al., 2010); shorten time to market (Hagedoorn, 2002; Zeng et al., 2010); and benefit from economies of scale in R&D (Narula, 2004; van de Vrande et al., 2009).

These benefits are especially important for small and medium enterprises (SMEs), which generally suffer from a lack of resources (Bougrain & Haudeville, 2002; Dickson, Weaver, & Hoy, 2006; Lee, Park, Yoon, & Park, 2010; Motohashi, 2008; Narula, 2004; van de Vrande et al., 2009). Consequently, with a shortage of financial, human and technological resources, the ability of SMEs to develop and commercialise successful innovations is limited (Bougrain & Haudeville, 2002; Dickson et al., 2006; Narula, 2004; van de Vrande et al., 2009), and are therefore less likely to engage in internal innovation compared to larger competitors (Lee et al., 2010; Sharif, 2003). Thus, in an attempt to overcome these resource constraints, SMEs are increasingly pursing innovation collaboration strategies, using external sources as a way of acquiring or obtaining access to the necessary resources required for innovation (Lee et al., 2010; Narula, 2004; van de Vrande et al., 2009). As Narula (2004) identifies, SMEs spend almost twice as much of their R&D expenditure towards innovation collaboration than larger firms. Additionally, van de Vrande et al. (2009) draw on a database of 605 Dutch SMEs, concluding that SMEs are increasingly pursuing innovation collaboration strategies to meet customer demands and keep up with larger competitors. Furthermore, in a survey of over 2,700 Korean SMEs, Lee et al. (2010) illustrate that SMEs frequently pursue external collaborations during the commercialisation process – when significant funding and complementary resources and capabilities (such as manufacturing capacity and marketing channels) are required. This reflects work by Dickson et al. (2006) who identify that small firms are often more internally focused during the early stages of innovation – when the resource requirements are less – while larger firms tend to enter the innovation process at later stages, when the demands for manufacturing and marketing resources are greater.

Although innovation in SMEs has received increased attention in recent times, few studies have focused on the impact of external collaborations on SME innovation performance in emerging economies (Kang & Park, 2012; Zeng et al., 2010; Zhang, Hoenig, Di Benedetto, Lancioni, & Phatak, 2009). As such, this paper aims to address this imbalance by examining the impact of innovation cooperation in Chinese SMEs – a context that provides unique challenges for innovation in SMEs (Siu, 2005; Zeng et al., 2010; Zhang et al., 2009).

Since the implementation of the open door economic reforms in 1978, China has shifted from a highly centralised planned state to a “near-market” economy, as decision-making power has spread from the centralised government to enterprises (Anderson, Li, Harrison, & Robson, 2003; Siu, 2005; Wang & Yao, 2002; Zeng et al., 2010). As a result, resources have been released into the market, providing significant opportunities for SMEs to grow (Siu, 2005; Zeng et al., 2010) (Anderson et al., 2003). Indeed, SMEs have experienced rapid growth in the country, with the number of SMEs in China growing to 7.32 million by 1995, accounting for 99.7% of all firms and contributing to 73.6% of the labour force (Wang & Yao, 2002). By 1999, this number had risen again to 10 million SMEs (Anderson et al., 2003). However, the central government still holds control over many large state-owned enterprises (SOEs), which has skewed central government policy in support of these SOEs – often to the detriment of the country’s SMEs (Siu, 2005; Wang & Yao, 2002; Zeng et al., 2010). Indeed, there is considerable evidence to suggest that Chinese SMEs face significant barriers to innovation, including ineffective policies for small business (Xie, Zeng, Peng, & Tam, 2013), inadequate government support for innovation (Zeng et al., 2010); poor access to financial resources (Wang & Yao, 2002); and the bureaucratic burden associated with ongoing government interventions (Siu, 2005; Xie et al., 2013; Zeng et al., 2010). It is therefore necessary to examine how Chinese SMEs can overcome these institutional barriers, to ensure that the country's large population of SMEs can remain competitive in the future.

Drawing on a survey of 257 Chinese SMEs, this paper examines the relationship between innovation performance and external collaborations. In light of the preceding discussion, the relations with three external groups will be discussed: other parties in the market place (referred to here as inter-firm collaboration), financial institutions (specifically state-owned and private banks) and government agencies. The remainder of the paper is structured into four sections. In Section 2, a literature review is conducted and the research hypotheses are developed. Section 3 highlights the data and methodology employed followed by a presentation of the results in Section 4. These results are discussed in Section 5, along with the implications, limitations and areas for further research that emerge from this study.

Research Hypotheses

This paper draws on the resource-based view (RBV) of the firm to provide a theoretical explanation as to why firms pursue innovation collaboration strategies. Under the RBV, firms are perceived as heterogeneous entities, each endowed with a unique set of resources that cannot be easily replicated nor easily acquired on the open market, and thus that these resource differences persist over time (Barney, 1991; Bougrain & Haudeville, 2002; Dickson et al., 2006; Eisenhardt & Martin, 2000; Kang & Park, 2012). Additionally, it is assumed that competitive advantage arises from the uniqueness of a firm's resource portfolio, and is considered *sustainable* when these resources are valuable, rare, inimitable and non-substitutable (Barney, 1991). Thus, from the perspective of the RBV, collaboration with external parties is seen as a way that firms can gain access the requisite resources needed to overcome any adverse heterogeneity, thereby strengthening their own innovation capabilities (Dickson et al., 2006; Kang & Park, 2012; Lee et al., 2010; Nieto & Santamaría, 2007; van de Vrande et al., 2009). Accessing the resources of external partners is particularly important for SMEs, who are typically challenged with insufficient resources for innovation (e.g. Bougrain & Haudeville, 2002; Dickson et al., 2006; Lee et al., 2010; Motohashi, 2008; Narula, 2004; van de Vrande et al., 2009).

Research examining to use of external collaborations for innovation has focused on many different external partners, including customers, suppliers, universities, public and private research institutes, banks, venture capitalists and governments (Bullinger et al., 2004; Kang & Park, 2012; Sharif, 2003; Wang & Zhou, 2011). For the purpose of this study – and given the unique forces acting on SMEs in China – three groups in particular will be examined: inter-firm collaborations, financial institutions and government agencies. Each of these groups, along with their respective hypotheses, will be discussed in the remainder of this section.

Inter-Firm Collaborations

Inter-firm collaboration represents the most common form of innovation cooperation for many firms (Kang & Park, 2012; Liefner, Hennemann, & Xin, 2006; Tether, 2002; Zeng et al., 2010). For the purpose of this paper, inter-firm collaboration refers to external networking that firms have with customers, suppliers, competitors and research organisations – external partners that are frequently combined in the literature to assess inter-firm cooperation (e.g. Kang & Park, 2012; Tether, 2002; Zeng et al., 2010). Although several previous scholars have illustrated a positive relationship between inter-firm collaboration and innovation performance for both small and large organisations (e.g. Kang & Park, 2012; Nieto & Santamaría, 2007; Zeng et al., 2010), the specific impact is diverse when examining the effects these external groups individually. As such, the impact of each of these four potential collaboration partners will be discussed here.

Collaborations with customers provide firms with a number of significant benefits in the race for innovation. By gaining direct insight into the needs and ideas of customers, firms can increase users' confidence their offerings, access a pathway for experimentation, and reduce the risks and uncertainties associated with bringing an innovation to market (Bullinger et al., 2004; Nieto & Santamaría, 2007; Tether, 2002; van de Vrande et al., 2009). Based on a dataset of U.K. firms, Tether (2002) provides empirical evidence for these benefits, illustrating that collaboration with customers is positively related to the performance of a firm's "new to market" innovations. He further identifies that collaboration with customers is negatively associated with several common barriers to innovation, including a lack of information and the high cost or perceived economic risk of innovation (Tether, 2002). Doloreux (2004) supports this benefit, identifying that customers tend to be the most frequently utilised external source of information, again as a way to reduce the risks of innovation by ensuring that new products or incremental improvements satisfy the needs of customers. Similarly, Bullinger et al. (2004) suggest that successful innovators are those who integrate both current and potential customers into their innovation network, leading to a greater focus towards customer specific problems. More recent research provides qualitative support for the positive relationship between customer collaboration and innovation performance across several contexts including Spanish manufacturing firms (Nieto & Santamaría, 2007), Dutch SMEs (van de Vrande et al., 2009) and biotechnology SMEs in South Korea (Kang & Park, 2012). However some studies challenge these findings, suggesting that collaborations with customers have no significant impact on innovation success (Kaufmann & Tödtling, 2001; Romijn & Albaladejo, 2002). One potential explanation for this contention is that while the contribution of customers may be beneficial for incremental innovations, customers "are usually not the originators of ideas too far from what they are accustomed to" (Kaufmann & Tödtling, 2001, p. 800). Thus, these findings further highlight the necessity for firms to integrate both current and potential customers into their innovative activities in an attempt to promote more innovative solutions (Bullinger et al., 2004; Kaufmann & Tödtling, 2001; Romijn & Albaladejo, 2002).

Collaboration with suppliers also provides superior innovation performance, by enabling firms to gain superior technological knowledge, while also shifting the risk and costs of innovation down the supply chain (Tether, 2002). Based on data from 128 Korean automobile and electronics suppliers, Chung and Kim (2003) suggest that collaborations with suppliers enable firms to reduce innovation risks and lead times, while also enhancing flexibility to market changes. Furthermore, Nieto and Santamaría (2007) highlight that collaboration with suppliers result in greater success of innovative projects in the case of Spanish manufacturing firms. For these reasons, suppliers have been consistently identified by SMEs as reliable innovation partners; found to be the most frequently used partner for formal R&D collaboration (Doloreux, 2004), and the second most used source for innovation information (Kaufmann & Tödtling, 2001). Bougrain and Haudeville (2002) however challenge the benefit of supplier collaboration, illustrating that it can have a negative impact on innovation performance for firms with less than ten employees. This highlights a common concern that small firms are generally unable to fund supplier-orientated innovation projects, which tend to be considerably more costly than other innovative projects – given the high level (i.e. more radical or more complex) nature of these projects (Bougrain & Haudeville, 2002; Kaufmann & Tödtling, 2001; Tether, 2002).

A third form of inter-firm collaborations mentioned here – collaboration with competitors – provides the greatest concern for innovating firms, with the potential for information leakage, increased risk of opportunistic behaviour and fear of helping rivals providing major challenges for firms (Dickson et al., 2006; Lee et al., 2010; Narula, 2004; Nieto & Santamaría, 2007). Despite this, it has been identified throughout the literature that cooperation with competitors can be beneficial, primarily when competitors share problems outside the realms of competition (such as those in the regulatory environment), when there is a first mover disadvantage arising from high costs of development or low barriers to imitation, or when firms attempting to establish the basis of competition in a particular industry (Nieto & Santamaría, 2007; Tether, 2002; Zeng et al., 2010). Several studies illustrate that firms recognise these benefits, providing empirical evidence to suggest that firms are increasingly utilizing competitors for collaborative innovation (e.g. Doloreux, 2004; Tether, 2002). Conversely, Nieto and Santamaría (2007) found a negative relationship between collaborating with competitors and innovation attributed to – among other things – a lack of trust and fear of helping competitors. Dickson et al. (2006) provide insight into this finding, illustrating that the perceived risk of opportunism is greater for small firms than their larger counterparts, often a deterrent for competitor-based collaboration.

Research organisations (such as universities, technical institutes and research institutes) are increasingly regarded as powerful sources of science and technology knowledge, and are frequently considered as partners for innovation (Nieto & Santamaría, 2007; Zeng et al., 2010). As research organisations typically offer little commercial knowledge, collaborations with these partners tend be based on new scientific and technical expertise, and therefore focused towards the early stage of innovation such as idea development and R&D (Kang & Park, 2012; Liefner et al., 2006; Nieto & Santamaría, 2007; Tether, 2002; Zeng et al., 2010). Like the other partners of innovation cooperation, a positive relationship between collaboration with research organisations has been demonstrated consistently throughout the literature, including in Spanish manufacturing firms (Nieto & Santamaría, 2007), small firms in Japan (Motohashi, 2008), South Korean SMEs (Kang &

Park, 2012) and research technology organisations in Valencia (Albors-Garrigós et al., 2013)

Despite the overwhelming support for the role of inter-firm collaboration on innovation performance, most of this research has occurred in the context of developed countries, with SMEs in emerging economies receiving relatively little attention. However, of the studies that have examined this context, there is sufficient evidence to suggest that the role of inter-firm collaboration in emerging economies reflects previous research conducted in developed countries. For example, Kaminski, de Oliveira, and Lopes (2008) illustrate that external partners such as suppliers, clients/customers and universities/research institutions are frequently involved in the innovation process of Brazilian SMEs. Of importance to the current study, these results have been reflected in China, with several studies demonstrating that collaborations with customers, suppliers, competitors and research organisations significantly contribute to innovation performance in Chinese SMEs (Liefner et al., 2006; Xie et al., 2013; Zeng et al., 2010). Thus, based on the discussion outlined above, the following hypothesis is proposed with regard to inter-firm collaboration:

Hypothesis 1: Inter-firm collaborations are positively associated with innovation performance in SMEs.

Interactions with Financial Intermediaries

As mentioned, innovation is a financially restricted activity, with considerable expenses required for researching, developing, piloting and commercializing new products and processes. This provides serious concern for SMEs given their resource deficiency (e.g. Bougrain & Haudeville, 2002; Dickson et al., 2006; Lee et al., 2010; Motohashi, 2008; Narula, 2004; van de Vrande et al., 2009). Romijn and Albaladejo (2002) acknowledge this challenge, illustrating that although R&D and commercialisation typically demand several years of sustained funding, few SMEs have the internal financial capacity to fund these project on an ongoing basis. Based on a survey of 249 English and Irish firms, Smallbone, North, Roper, and Vickers (2003) provide empirical evidence that supports this concern, highlighting that SMEs tend to place a greater emphasis on finances as a constraint for innovation compared to larger firms – a result that is confirmed in an additional studies of innovation constraints in several other European countries (e.g. Caputo, Cucchiella, Fratocchi, Pelagagge, & Scacchia, 2002; Hewitt-Dundas, 2006; van de Vrande et al., 2009). These concerns have lead scholars to stress that SMEs need greater access the financial systems, to overcome these financial restrictions and enhance innovation performance (Caputo et al., 2002; Hewitt-Dundas, 2006; Levine, 2005).

This need is augmented in unstable environments. As Filippetti and Archibugi (2011) illustrate in a study of over 5,000 European enterprises following the Global Financial Crisis, the depth of a country's financial system is pivotal in encouraging innovation expenditures during such periods of uncertainty. The authors conclude that a strong financial system can support the innovation performance required to enable lagging countries to catch up to advanced economies (Filippetti & Archibugi, 2011). Indeed, in the context of an emerging economy, Zeng et al. (2010) found that linkages between SMEs and intermediary institutions (including financial institutions) result in superior innovation performance for SMEs in China. Xie et al. (2013) present similar results, illustrating that financial capacity is positively related to innovation performance in Chinese SMEs.

It should be noted here however that a positive relationship between innovation performance and access to external financial resources must be interpreted carefully. Using venture capitalists as an example, some scholars argue this relationship may be less of a reflection that external financing improves innovative output than it is an indication that investors either prefer to invest in firms with greater managerial and technical competencies (Zeng et al., 2010), or that they are attracted to invest in firms with above average levels of innovation as is (Pender, 2014). Thus, to build on previous findings – but to avoid the selection effects of venture capitalists – the present study examines the impact of external financing, limiting the examination of financial institutions to commercial and state-owned banks. In line with previous empirical and theoretical contributions, the following hypothesis is given:

Hypothesis 2a: Interaction with financial institutions is positively associated with SME innovation performance.

Moderating Effect of Interactions with Financial Institutions

Despite the overwhelming evidence supporting a positive relationship between inter-firm collaboration and innovation, several studies suggest that SMEs are not conducting in collaborations as would be expected – primarily due to the lack of resources held by SMEs (Doloreux, 2004; Lee et al., 2010; Narula, 2004; Sharif, 2003). For example, in a qualitative study of SMEs in Hong Kong, Sharif (2003) illustrates that the financial cost involved in searching for innovation partners is a major deterrent of inter-firm collaboration. Narula (2004) supports this constraint, concluding that the lack of resources associated with small firms makes R&D collaboration more costly for SMEs than larger firms, as they generally have fewer opportunities to fail and less bartering power compared to large firms. In further support for this financial constraint, Lee et al. (2010) demonstrate that although external partners are recognised as important sources of information for innovation amongst most SMEs, few of them actively used this information in their own innovation activities due to a lack of financial resources available to gather information about potential partners. Thus, based on these studies, it is predicted that the more access SMEs have to financial resources, the less costly they will consider the search for external partners to be, and the more they will pursue innovation collaboration partnerships.

Hypothesis 2b: Interaction with financial institutions has a positive moderating effect on the relationship between inter-firm collaboration and innovation performance.

Interactions with Government Agencies

The impact of government support (in the form of R&D subsidies, tax incentives and loans that promote innovative activity) on innovation performance has been addressed throughout the literature (Almus &

Czarnitzki, 2003; González & Pazó, 2008; Kang & Park, 2012; Lach, 2002; Romijn & Albaladejo, 2002; Zeng et al., 2010). It is widely recognised that interactions with government agencies can lead to improved government policies, regulatory measures, strategic programs and public support – all of which serve to enhance the interacting firm's innovation performance (Almus & Czarnitzki, 2003; González & Pazó, 2008; Kang & Park, 2012; Lach, 2002; Romijn & Albaladejo, 2002; Zeng et al., 2010). Based on a survey of small software development and electronics companies in England, Romijn and Albaladejo (2002) demonstrate the importance of government support to SMEs, identifying a positive relationship between public R&D support and SME innovation performance. Lach (2002) extends these findings, providing evidence to suggest that R&D subsidies granted by the government stimulate R&D spending in Israeli SMEs. Similarly, in case of firms from Germany, Almus and Czarnitzki (2003) highlight that firms which receive public funding express greater internal R&D intensity compared to firms that do not receive subsidies. Furthermore, González and Pazó (2008) apply this research to Spanish manufacturing firms, highlighting from a sample of 2,214 firms (90 percent of which were SMEs) that firms receiving government subsidies carried out greater internally funded R&D efforts than non-subsidized firms. Thus, the overall consensus from the literature suggests that government support increases R&D spending and innovation performance in SMEs.

However, such conclusions are mixed when the question is focused towards SMEs in Asia. Kang and Park (2012) for example provide support for the above findings, illustrating that government R&D support elicits a positive impact on the innovation performance of South Korean biotechnology SMEs. This however is contrasted by findings from Zeng et al. (2010) who report no significant correlation between government support and innovation performance in Chinese SMEs. Furthermore, Xie et al. (2013) report that there is in fact a negative correlation between the political environment and innovative performance in Chinese SMEs, suggesting that the current policies in China serve as barriers to innovation in SMEs. Thus, the current study aims to extend this understanding further, by identifying the impact that interactions with government agencies have on innovation performance in Chinese SMEs. As the research is inconsistent in Asian economies, this study will follow the more unanimous consensus developed in developed countries, proposing a positive relationship between interactions with government agencies and innovation performance.

Hypothesis 3a: Interaction with government agencies is positively associated with a firm's innovation performance.

Moderating Effect of Government Agencies

In addition to a direct impact on innovation performance, the moderating effect of government policies on inter-firm collaboration is also recognised throughout the literature (Dickson et al., 2006; Kang & Park, 2012; Romijn & Albaladejo, 2002; Zeng et al., 2010). Numerous authors have acknowledged that an ineffective institutional environment – i.e. one with weak government support and protection – serves as a significant barrier that prevents SMEs from engaging in inter-firm collaboration (Caputo et al., 2002; Dickson et al., 2006; Hewitt-Dundas, 2006; van de Vrande et al., 2009; Xie et al., 2013; Zeng et al., 2010). For example, Dickson et al. (2006) illustrate that firm size moderates the relationship between the institutional environment and perceptions of opportunistic behaviour, meaning that SMEs are much less likely to engage in inter-firm collaboration when government support and legal protection are weak – due to a perceived difficulty of aligning contractual agreements with the potential risks, exerting control, and preventing opportunistic behaviour from partners. As such, several authors have identified the need for governments to provide greater support and develop more effective policies to create an environment conducive for SME inter-firm collaboration (Kang & Park, 2012; Xie et al., 2013; Zeng et al., 2010). Indeed, early studies have illustrated that government support has a positive impact on university-industry collaborations (Hong, 2008; Liefner et al., 2006). Kang and Park (2012) build on this research, highlighting that government support has a positive impact on an SME's collaboration with upstream (e.g. universities and research institutes) and downstream partners (e.g. customers, suppliers, competitors and collaborators). Zeng et al. (2010) support this relationship in the case of Chinese SMEs, highlighting that cooperation with government agencies has a positive impact on inter-firm collaboration – despite the absence of a direct correlation between cooperation with government agencies in innovation performance. Thus, in light of this research, the following hypothesis is proposed:

Hypothesis 3b: Interaction with government agencies has a positive moderating effect on the relationship between inter-firm collaboration and innovation performance.

Based on the above literature review, the conceptual model for this paper is presented in *Figure 1*. The model illustrates the direct relationships between inter-firm collaboration, interaction with financial institutions, interaction with government agencies and innovation performance (Hypotheses 1, 2a and 3a), as well as the moderating effects of interaction with financial institutions and interaction with government agencies on the inter-firm collaboration and innovation performance relationship (Hypotheses 2b and 3b). As indicated above, it is predicted that each of these direct and moderating effects will be positive.

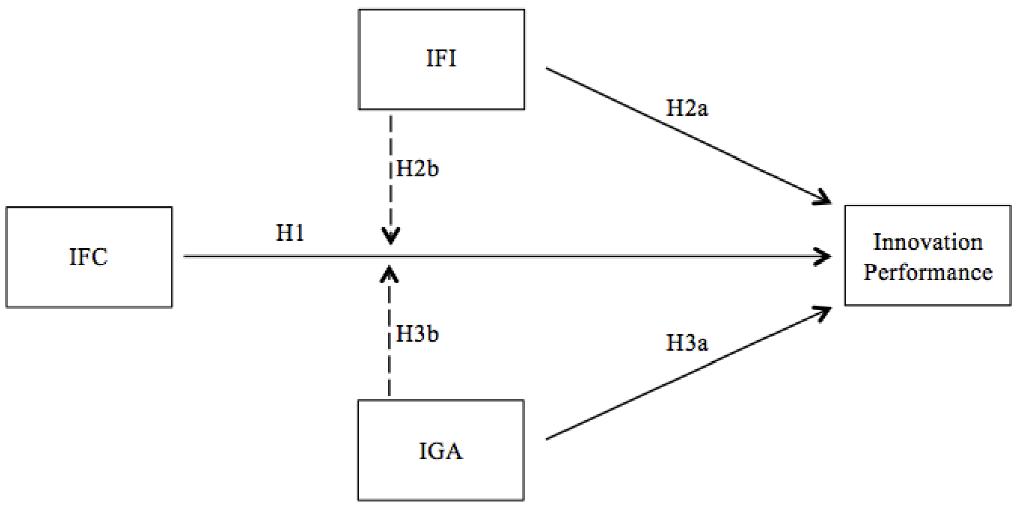


Figure 1. Conceptual Model. *Solid line depicts a direct relationship; dotted line represents a moderating effect. IFC = Inter-firm collaboration; IFI = Interactions with financial institutions; IGA = Interactions with government agencies.*

Methods
Sample

This study uses secondary data collected from a survey of SMEs in China that was conducted in 2012. For the purpose of this study, SMEs are defined as firms with less than 500 employees – a definition that has been widely adopted in the literature (Dickson et al., 2006; Narula, 2004; van de Vrande et al., 2009; Wang & Yao, 2002; Xie et al., 2013; Zeng et al., 2010). However, it is important to note that this definition differs from that commonly adopted in China, in which the classification system is considerably more complex compared to international standards (Wang & Yao, 2002; Xie et al., 2013; Zeng et al., 2010). This complexity arises from the numerous different measures for SMEs, including production output (whereby small firms produce less than 100,000 tons of goods, and medium firms producing between 100,000 to 600,000 tons), the original value of the firm's fixed capital (with small firms' fixed capital valued at less than 15 million Yuan, and medium firms' valued between 15 million and 50 million Yuan), employee numbers (with SMEs considered to employee less than 2,000 employees), annual turnover of less than 300 million Yuan per year, and total assets of less than 400 million Yuan (Wang & Yao, 2002; Xie et al., 2013; Zeng et al., 2010). Despite these various measures, most academic research on Chinese SMEs has adopted the internationally recognised definition as firms with less than 500 employees (e.g. Wang & Yao, 2002; Xie et al., 2013; Zeng et al., 2010), and will therefore be the definition used for the present study.

Among other things, the original survey measured the perceptions of managers on their firm's performance in several measures of innovation over the past three years, relative to competitors. The survey also captured the managers' perceptions on their firm's interactions and collaborations in innovation with external partners (including buyers, suppliers, competitors, research organisations, financial institutions and government agencies and officials) over the past three years. These items were assessed on a 7-point Likert scale, with "1" being "very low/poor" and "7" being "very high/strong". Questionnaires were sent to 1000 SMEs in China, of which 301 responded (response rate of 30.1%). A total of 257 of these respondents were useable for this study, after accounting for missing data and extreme cases (a final sampling rate of 25.7%).

Table 1 highlights the characteristics of the sample. The vast majority of the SMEs used in this study (167 SMEs; 65%) were established through joint ventures and alliances with international partners (herein, "international SMEs"), while the remaining 90 SMEs operating under domestic ownership (35%). Agricultural SMEs were underrepresented in this sample (19 SMEs; 7.4% of the sample), while services and manufacturing SMEs made up the vast majority (41.2% and 51.4% respectively). Finally, the sample was disproportionally represented in terms of location, with 135 SMEs (52.5%) located in Beijing, compared with the 60 SMEs (23.4%) from Guangzhou and 62 SMEs (24.1%) located in Shanghai.

Table 1: Sample Characteristics (*N* = 257)

Characteristics	Mean ± Std. Dev. (Number of SMEs, %)	
Age (Years)	18.311 ± 14.502	
Ownership		
Domestic	90	(35%)
Joint Ventures and Alliances	167	(65%)
Industry		
Agriculture	19	(7.4%)
Services	106	(41.2%)
Manufacturing	132	(51.4%)
Location		
Beijing	135	(52.5%)
Guangzhou	60	(23.4%)
Shanghai	62	(24.1%)

Table 2

Variables and Internal Consistencies of Scale Constructs

Latent Variables	Observed Variables	Means[a]	Std. Dev.	Cronbach's α
Innovation Performance	New products	3.856	1.793	0.892
	New processes	3.961	1.839	
	Improvement of existing products	4.276	1.660	
	Improvement of existing processes	4.000	1.716	
	New production techniques	4.183	1.659	
	Exploration of new markets	3.580	1.682	
	Managerial innovation	3.665	1.535	
IFC	Suppliers	5.292	1.374	0.760
	Buyers	4.840	1.574	
	Competitors	5.716	1.446	
	Research organisations	5.319	1.363	
IFI	State banks/Government financial orgs.	4.872	1.640	0.828
	Commercial/Private banks	5.451	1.363	
IGA	Central government agencies	5.128	1.532	0.874
	Local government officials	5.058	1.691	
	Industry officials	5.136	1.567	
	Government regulatory agencies	5.066	1.500	

[a] Score based on a 7-point Likert scale
IFC = Inter-firm Collaboration
IFI = Interactions with Financial Institutions
IGA = Interactions with Government Agencies

Variables

Dependent Variable

Taking into consideration the fact that there are numerous forms of innovation (Schilling, 2013), this study assessed the innovation performance of the SMEs based on several aspects of innovation. As illustrated in *Table 2*, the "Innovation Performance" variable comprised of seven observed variables, which – with a Cronbach's ɑ of 0.892 (Cronbach's ɑ > 0.7) - indicates acceptable levels of reliability (Zeng et al., 2010).

Independent Variables

To assess the impact that relations with external partners have on innovation performance in SMEs, observed variables are grouped into several latent variables – in a similar manner to Zeng et al. (2010). As presented in *Table 2*, these latent variables include inter-firm collaboration (IFC), interactions with financial institutions (IFI) and interactions with government agencies (IGA). Tests for internal consistency shows that each individual construct has an acceptable level of reliability as the Cronbach's ɑ is greater than 0.7. IFI comprises the relationships that the SMEs had with state banks, government financial organisations, and commercial/private banks. Again, a test for reliability of this construct highlights an acceptable level of reliability (Cronbach's ɑ > 0.7). Finally, IGA comprises of the relationships and connections that the SMEs had with central government agencies, local government officials, industry officials and government regulatory agencies. These parties are grouped together due to their common objective of setting the regulatory foundations of the business environment (e.g. Dickson et al., 2006; Zeng et al., 2010) – an assumption that is confirmed by a strong Cronbach's ɑ value, supporting the reliability of this construct.

Control Variables

A number of control variables were included to account or firm-specific characteristics – specifically age, ownership and the number of main products produced by the SME. Firstly, it is predicted that older firms have accumulated more knowledge than younger firms, thereby enhancing their capacity for innovation (Kang & Park, 2012; Nieto & Santamaría, 2007; Shan, Walker, & Kogut, 1994). Additionally, as these older firms are more likely to have engaged with external parties over their lifetime, it is reasonable to assume that they may developed a greater number of collaborations with external partners (Tether, 2002). However, research suggests that these predictions fall short – indicating that there is no significant relationship between firm age and innovation collaboration (Kang & Park, 2012; Shan et al., 1994; Tether, 2002). There is however weak evidence that younger firms are more likely to cooperate with cheaper, more open parties (Tether, 2002). Thus, to account for the potential effect of age on innovation collaboration, it is included as a control variable in the current study.

Table 3: Descriptive Statistics (*N* = 257)

Variable	Mean	Std. Dev.	Pearson Correlation Matrix					
			(1)	(2)	(3)	(4)	(5)	(6)
1. Innovation Performance [b]	27.521	9.269	1					
2. Firm Age	18.311	14.502	-0.015	1				
3. Ownership[a]	0.350	0.478	0.124*	-0.117[†]	1			
4. Number of Main Products	3.035	1.621	0.171	0.154*	-0.031	1		
5. Inter-firm Collaboration (IFC)[c]	21.167	4.224	0.284	-0.029	-0.019	0.019	1	
6. Interaction with Financial Institutions (IFI)[d]	10.323	2.785	0.210***	0.014	-0.147*	0.133*	0.561***	1
7. Interaction with Government Agencies (IGA)[c]	20.389	5.364	0.122*	-0.060	-0.172**	0.131*	0.576***	0.797***

**p*<.05, ***p*<.01, ****p*<.001, [†]*p*<.10

[a] A dummy coding scheme was utilized for the ownership variable whereby "0" indicated an SME established through an international joint venture or alliance and "1" indicated a domestic company. The mean here should be interpreted as a proportion.

[b] Perception-based score out of 49 (based on a 7-point Likert scale)

[c] Perception-based score out of 28 (based on a 7-point Likert scale)

[d] Perception-based score out of 14 (based on a 7-point Likert scale)

Table 4: Hierarchical Linear Regression Analysis of Innovation Performance

	1. All SMEs $N=257$			**2. Domestic SMEs** $N=90$		**3. International SMEs** $N=167$	
Variable	Model 1	Model 2	Model 3	Model 1	Model 2	Model 1	Model 2
(Constant)	27.521***	27.521***	27.189***	29.383***	29.497***	26.720*	26.727*
Control Variables							
Firm Age	-0.028	-0.036	-0.032	0.153	0.209	-0.112	-0.145*
Ownership[a]	0.126*	0.125*	0.123*	-	-	-	-
Number of Main Products	0.179**	0.174**	0.176**	0.112	0.104	0.217*	0.204**
External Cooperation							
Inter-Firm Collaboration (IFC)	-	0.286***	0.293***	-	0.331*	-	0.305**
Interactions with Financial Institutions (IFI)	-	0.226*	0.222*	-	-0.057	-	0.351**
Interactions with Government Agencies (IGA)	-	-0.226*	-0.213*	-	0.020	-	-0.377*
Moderating Interactions							
IFC x IFI	-	-	-0.026	-	-	-	-
IFC x IGA	-	-	0.094	-	-	-	-
R^2	0.046	0.147	0.152	0.041	0.134	0.052	0.195
Adjusted R^2	0.035	0.126	0.125	0.019	0.083	0.041	0.170
ΔR^2	0.046	0.100	0.005	0.041	0.094	0.052	0.143
F	4.112**	7.169***	5.551***	1.858	2.610*	4.507*	7.817***
Maximum VIF	1.038	3.047	4.395	1.021	3.612	1.025	4.339

*$p<.05$, **$p<.01$, ***$p<.001$, †$p<.10$

[a] Dummy variable whereby "0" represents SMEs established though international joint ventures and alliances and "1" represents domestic SMEs

Ownership in this study refers to the whether the SME is domestically or internationally-owned – i.e. established as a result of a joint venture or alliance with an international parent. Tether (2002) highlights that firms belonging to a wider company of groups (including those established through joint ventures or alliances) are more likely to engage in innovative collaboration, as they may have access to the wider resources of the parent companies. In this study, the ownership variable is coded in such a way that “1” refers to domestic ownership, while “0” represents those SMEs formed through joint ventures and alliances.

Several studies indicate that the benefits of engaging in cooperative innovation increase with firm size, as larger firms have greater resources with which they can exert power in collaborative arrangements (Dickson et al., 2006; Shan et al., 1994; Tether, 2002). Similarly, firms with a greater scope of products are likely to benefit from both an ability to spread risks of innovation across a range of products, as well as through the synergistic advantages arising from economies of scope – thereby increasing the attractiveness of innovation for these firms (Narula, 2004; van de Vrande et al., 2009; Wan, Hoskisson, Short, & Yiu, 2011). Thus, to account for these factors, the number of products produced by a firm (as a proxy for firm size) was included as a control variable in this study.

Methodology

A hierarchical linear regression model is used to analyse the data in this study, using SPSS Version 22. After assessing the descriptive statistics and correlations for each variable (see *Table 3*), the hierarchical linear regression was run with innovation performance as the dependent variable. The first regression (“1. All SMEs” in *Table 4*) consists of all 257 firms in this sample. Model 1 of this regression assessed the effect of the control variables, with the main effect variables (IFC, IFI and IGA) added into Model 2. Model 3 examines the moderating effects of both IFI and IGA on the IFC-innovation performance. Two additional regressions were then run, the first to examine the main effect variables in the domestic SMEs only (“2. Domestic SMEs” in *Table 4*), and the second to examine these variables in the internationally-owned SMEs (“3. International SMEs” in *Table 4*).

Results

Table 3 shows descriptive statistics for the variables in the model and the correlations between them. With a mean age of 18.3 years, this sample was considerably more mature than those assessed in previous studies exploring the relationship between external cooperation and innovation performance (e.g. Kang & Park, 2012; Liefner et al., 2006). As indicated in the previous section, the sample is unevenly distributed, with a greater representation of internationally owned SMEs compared with domestically owned SMEs. Additionally, these results highlight that the frequency of inter-firm collaboration was higher than the frequency of interactions with government agencies over the past three years – implying that the SMEs in the sample perceived greater benefit from (or easier access to) other parties in the market than government agencies.

The correlation matrix presented in *Table 3* suggests that the relationships between the explanatory variables are fairly modest, with only the external cooperation variables showing higher correlations. Interaction with financial institutions and interactions with government agencies expressed the highest correlation at 0.797 ($p<0.001$). In light of this correlation, variance inflation factors (VIFs) were examined for all of the variables, to account for the potential problems associated with multicolinearity. As evident in *Table 4*, all VIFs were below a value of ten, suggesting the model is free of multicolinearity (Field, 2013)

External Cooperation and Innovation Performance

Table 4 shows the results of the hierarchical regression analysis. Hypothesis 1 predicted that collaboration with other firms is positively associated with innovation performance. Based on Model 2 in the regression with all SMEs, the significance of the inter-firm collaboration (IFC) variable supports this relationship ($p<0.01$). This finding is consistent with the growing stream of literature that stresses the importance of collaboration with buyers, suppliers, competitors and research organisations in the innovation process for SMEs (e.g. Bullinger et al., 2004; Hagedoorn, 2002; Nieto & Santamaría, 2007; Tether, 2002; van de Vrande et al., 2009; Wang et al., 2012).

Hypothesis 2a predicted that SMEs interacting with financial institutions (IFI) would experience greater innovation performance. The significance of this variable in Model 2 in the first regression supports this hypothesis ($p<0.5$). This result supports the notion that innovation is a financially-restrained activity (Caputo et al., 2002; Levine, 2005; Romijn & Albaladejo, 2002; van de Vrande et al., 2009), and that greater relationships with various sources of capital – such as financial institutions – contributes positively to innovation performance (Caputo et al., 2002; Hewitt-Dundas, 2006; Levine, 2005).

Hypothesis 3a predicted that interaction with government agencies (IGA) was positively associated with innovation performance. Interestingly, the results from this study contrast this prediction, indicating instead that IGA are negatively associated with innovation performance ($p<0.5$). Thus, these findings indicate that the more interactions SMEs have with government agencies, the lower their innovation performance is likely to be – supporting findings from Xie et al. (2013)

Hypothesis 2b predicted that IFI would exert a positive moderating effect on the IFC-innovation performance relationship, as SMEs with greater access to financial institutions would be able to access the financial resources required in the search for potential IFC partners. However, the interaction variable in Model 3 was not significant, and thus Hypothesis 2b was not supported. Similarly, Hypothesis 3b predicted that IGA would express a positive moderating effect on the IFC-innovation performance relationship, as SMEs with greater interactions with government agencies could establish relationships that would enable better access to government support. The interaction term evident in Model 3 was also not significant, and therefore did not support Hypothesis 3b. Thus, based on these two findings, it can be concluded that neither IFI nor IGA moderated the IFC-innovation performance relationship.

Control Variables

Although no specific hypotheses were offered for the control variables, the hierarchical regression and correlation matrix both provide some interesting results regarding these variables. Firstly, based on the output from Model 1 in the regression with all SMEs, it is evident that there is a weakly positive relationship between the number of product lines produced by an SME and its innovation performance ($p<0.01$). Without going into too much detail, a potential explanation for this finding is that SMEs with a greater number of product lines may benefit from an ability to spread the risk of innovation across a wider portfolio of products, thereby reducing the risk associated with each new innovation (Narula, 2004; van de Vrande et al., 2009; Wan et al., 2011).

Secondly, it is evident that there is a weakly positive relationship between SME ownership and innovation performance ($p<0.05$). Based on the coding of this variable, this result suggests that domestic SMEs express greater innovation than international SMEs. To explore this relationship in greater detail, two additional regressions were run to explore the differences in external cooperation between these two groups, and are described below.

Collaboration Performance in Domestic versus International Firms

The effect of external cooperation on innovation performance for domestically owned SMEs is presented in the second regression in *Table 4*. For the domestic SMEs, only inter-firm collaboration appeared to have a significant impact on innovation performance ($p<0.05$), supporting previous research that highlights a positive relationship between IFC and innovation performance (e.g. Bullinger et al., 2004; Hagedoorn, 2002; Nieto & Santamaría, 2007; Tether, 2002; van de Vrande et al., 2009; Wang et al., 2012). Similarly, this model suggests that IFI and IGA have no significant relationship with innovation performance in domestic SMEs, thus supporting research that suggests: (i) SMEs have difficulty accessing financial systems and thus find it difficult to establish relationships with financial institutions (e.g. Lee et al., 2010; Narula, 2004; Wang & Yao, 2002; Xie et al., 2013; Zeng et al., 2010), and (ii) government policies in China are not effective at facilitating innovation in Chinese SMEs (e.g. Xie et al., 2013; Zeng et al., 2010).

As for the internationally owned SMEs in this sample, all three forms of collaboration significantly impacted innovation performance (all $p<0.01$) – with IFC and IFI eliciting positive effects, while IGA showed a negative impact on innovation performance. The difference in the impact of IFI between international and domestic SMEs may be attributed to the fact that international SMEs have access to the parent companies' resources, networks and reputation (Tether, 2002), and thus provide a less risky financial opportunity for banks and other financial institutions (Xie et al., 2013). Alternatively, the differences in IGA suggest that international SMEs face more difficult barriers from the government than their domestic counterparts – presumably reflecting a lingering effect of China's ongoing transition from a closed, centralised state to an open economy (Anderson et al., 2003; Siu, 2005; Wang & Yao, 2002; Zeng et al., 2010).

Discussion

The results of this study indicate that inter-firm collaboration and interactions with financial institutions contribute significantly to innovation performance in SMEs. These findings therefore support the growing consensus amongst scholars that SMEs can overcome their inherent resource deficiency and enhance innovation performance by cooperating with external partners (e.g. Bullinger et al., 2004; Hagedoorn, 2002; Motohashi, 2008; Nieto & Santamaría, 2007; Tether, 2002; van de Vrande et al., 2009; Wang et al., 2012; Xie et al., 2013; Zeng et al., 2010). However, although inter-firm collaboration promotes innovation in both domestic and internationally owned SMEs, interaction with financial institutions appears to only be significantly related to internationally owned SMEs. This reflects that difficulties that domestic Chinese SMEs face in accessing financial systems compared to their international counterparts. As Wang and Yao (2002) reveal, access that SMEs have to formal financial markets is far worse in China than many other countries, with SMEs accounting for less than 10 percent of formal loans each year. Furthermore, as the Chinese government moves to decentralise decision-making and accountability, financial institutions such as banks now carry all risk in their lending (Xie et al., 2013). Therefore, in the absence of government support for SMEs (as highlighted in this study), this decentralisation is detrimental to SMEs, who are typically seen as more risky investments and therefore less likely to receive funding (Xie et al., 2013). Internationally owned SMEs on the other hand have access the parent companies' resources, including the parent's reputation, collaboration experience, knowledge and prior networks or relationships (Tether, 2002). As such, these SMEs are often more attractive to investors and financial institutions that other SMEs, typically enabling them greater access to funding and external capital (Pender, 2014; van de Vrande et al., 2009; Zeng et al., 2010). Consequently, this group of SMEs can be seen to have greater access to financial institutions that their domestic peers, and thus able to reap the benefits of interactions with financial institutions.

The findings from this study also suggest that interactions with government agencies generally have a negative impact on the innovation performance of SMEs in China, reflecting earlier studies in emerging economies (e.g. Xie et al., 2013). This finding contrasts research conducted in developed countries, which suggest that IGA is positively related to innovation performance (e.g. Almus & Czarnitzki, 2003; González & Pazó, 2008; Lach, 2002; Romijn & Albaladejo, 2002). One explanation of this result is the highly inflexible nature of government innovation support, as it is typically unable to be used for different projects or with different innovation partners than those it was initially granted for (van de Vrande et al., 2009; Wallsten, 2000). It can therefore be argued that government regulation and control on innovation has a detrimental effect on innovation performance, causing firms to pursue projects that are either inappropriate for the SME, or of little market value (Chakrabarti & Souder, 1984; van de Vrande et al., 2009; Wallsten, 2000). A second potential explanation for this result is that the government policies in China are simply not conducive to innovation collaboration in SMEs. Indeed, it has been acknowledged by several authors that the current institutional environment is less than ideal for SME innovation, with poor access to financial resources, bureaucratic burden and inadequate government support common barriers amongst Chinese SMEs

(Siu, 2005; Wang & Yao, 2002; Xie et al., 2013; Zeng et al., 2010). Building on this explanation, it would seem that the negative relationship between interactions with government agencies and innovation performance in international SMEs reflect a delayed response from China's transition from a closed, centralised state to an open economy.

Finally, despite the predictions that interactions with financial institutions and interactions with government agencies would enhance the relationship between inter-firm collaboration and innovation performance, this study found no significant moderating effect for either forms of cooperation. The fact that interactions with financial institutions had no significant moderating effect arises in part due to the difficulties that Chinese SMEs face in accessing financial systems (Lee et al., 2010; Narula, 2004; Wang & Yao, 2002; Xie et al., 2013; Zeng et al., 2010). Poor access to these financial systems – as evident in the domestic SMEs in this sample – means that financial institutions cannot provide SMEs with the capital they require to overcome their inherent resource deficiencies, and therefore are unlikely to have any impact, let alone a moderating impact, on innovation performance. A further explanation for this finding is that those SMEs who do gain access to external funding sources – such as the internationally owned SMEs in this sample – typically use these resources to stimulate their own internal R&D projects, rather than to pursue new collaborative opportunities (González & Pazó, 2008; Wallsten, 2000). Indeed, as external investors typically prefer investing in SMEs who are considered more capable of generating returns and less risky, the SMEs that gain access to external financing may in fact be the most R&D-engaged firms who are not in the greatest need of pursing inter-firm collaboration (González & Pazó, 2008; Pender, 2014; Zeng et al., 2010). The fact that interactions with government agencies had no significant moderating effect also reflects the earlier findings presented in this paper – specifically the insignificant relationship between government agencies and domestic SMEs and the negative relationship between international SMEs and international SMEs. As such, an initial explanation for this finding is that it is simply a further reflection that the current government policies in China are ineffective at stimulating innovation collaboration in China for both domestic and international SMEs. However this result may also be attributed to the nature of government support, which – like support from financial institutions – is known to be attracted to the most R&D-engaged firms (González & Pazó, 2008). Thus, the SMEs that do receive government support may in fact be those that do not require external cooperation to overcome any resource discrepancy. Furthermore, it has been mentioned that government innovation support can highly inflexible, typically restricted to a single innovation project or used with specific innovation partners than those it was initially granted for (van de Vrande et al., 2009; Wallsten, 2000). As such, the lack of a moderating effect of IGA with innovation performance may also reflect the fact that government support received in China is not conducive for promoting inter-firm collaboration.

Implications and Policy Recommendations

Several managerial implications and policy recommendations can be drawn from this study. It is clear that cooperation with external partners can help SMEs overcome an inherent resource deficiency by providing access to external knowledge or funding. Thus, if SMEs can overcome the concerns relating to external collaboration (e.g. Dickson et al., 2006; Lee et al., 2010; Narula, 2004; Nieto & Santamaría, 2007) they may experience greater innovation performance through external cooperation. In saying this, it is also apparent that managers must remain cautious and selective when determining which external partnerships they pursue as some external cooperation (such as interactions with government agencies) may inhibit innovation performance rather than enhance it. Furthermore, given the contrasting picture these results reveal compared to research conducted in developed countries (e.g. Almus & Czarnitzki, 2003; González & Pazó, 2008; Lach, 2002; Romijn & Albaladejo, 2002), it is evident that there is a need for managers to take into consideration the institutional environment, recognising that the partnerships that enhance innovation performance in some countries may not be of value in others. From a policy perspective, these results reveal that the current government policies in China are ineffective for promoting innovation in domestic SMEs, and inhibit innovation in internationally owned SMEs. It is thus essential that policy makers focus on promoting policies that encourage SME innovation (e.g. R&D subsidies, tax incentives etc.) facilitate inter-firm collaborations and provide domestic SMEs greater access to financial institutions.

Limitations and Future Research

It is important to recognise that there are several limitations of this study that highlight areas for future research. Firstly, although this study provides insight into the benefit of external cooperation on innovation performance, a lack of accessible information meant that several other factors were not discussed here including the strength, age or formality of these relationships. Indeed, the strength of external relationships has been recognised as a critical determinant of the success of collaborations (Sharif, 2003), and therefore warrants further research. Additionally, to ensure an adequate focus, this paper has purposefully avoided the cultural aspects of business in China, such as how personal relationships and *guanxi* impact business collaborations (Liefner et al., 2006; Siu, 2005). As such, future research should attempt to explore this issue in more depth, linking in cultural literature with innovation collaboration strategies in emerging economies.

Secondly, these results are based on SMEs operating in three of the largest cities in China, and therefore may not be reflective of other emerging economies, or even of other areas within China. As such, the relationship between external cooperation and SME innovation performance should be examined in other areas within China to test the generalisability of the current findings. Indeed, of the limited research exploring the impact of external collaborations on innovation performance in Chinese SMEs, most of this discussion has been based on data from large cities such as Beijing, Shanghai and Guangzhou (e.g. Xie et al., 2013; Zeng et al., 2010) avoiding smaller, more rural areas where there will be even less access to financial resources and perhaps less formal institutional barriers preventing innovation.

Thirdly, the results presented in this paper provide further evidence to support the suggestion that current innovation policy is hindering innovation performance in SMEs (Siu, 2005; Xie et al., 2013; Zeng et al., 2010). Future research should therefore attempt to empirically examine this assumption, by comparing the impact of external collaborations on innovation performance in SMES compared to state-owned enterprises. Such an insight would provide policy makers with greater confirmation of the current state of innovation policy in China.

Conclusion

In conclusion, this study has explored the relationship between external cooperation and innovation performance of SMEs in China. The results indicate that inter-firm collaboration and interactions with financial institutions have positive effects on innovation performance, while interactions with government agencies negatively impact SME innovation. Furthermore, the significance of these relationships differs in response to SME ownership, with the innovation performance of internationally owned SMEs more significantly impacted by these three external networks than domestic SMEs. Taken collectively, these results illustrate that external cooperation can provide SMEs with the necessary resources they require to overcome their inherent resource deficiency, leading to superior innovation performance. In saying this, it is clear that the current institutional environment in China is not conducive to SME innovation, providing concern for both domestic and internationally owned SMEs.

References

Albors-Garrigós, J., Rincon-Diaz, C. A., & Igartua-Lopez, J. I. (2013). Research Technology Organisations as Leaders of R&D Collaboration with SMEs: Role, Barriers and Facilitators. *Technology Analysis & Strategic Management, 26*(1), 37-53. doi: 10.1080/09537325.2013.850159

Almus, M., & Czarnitzki, D. (2003). The Effects of Public R&D Subsidies on Firms' Innovation Activities: The Case of Eastern Germany. *Journal of Business & Economics Statistics, 21*(2), 226-236. doi: 10.1198/073500103288618918

Anderson, A. R., Li, J. H., Harrison, R. T., & Robson, P. J. A. (2003). The Increasing Role of Small Business in the Chinese Economy. *Journal of Small Business Management, 41*(3), 310-316.

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management, 17*(1), 99-120.

Bougrain, F., & Haudeville, B. (2002). Innovation, Collaboration and SMEs Internal Research Capacities. *Research Policy, 31*, 735-747.

Bullinger, H. J., Auernhammer, K., & Gomeringer, A. (2004). Managing Innovation Networks in the Knowledge-Driven Economy. *International Journal of Production Research, 42*(17), 3337-3353. doi: 10.1080/00207540410001695970

Caputo, A. C., Cucchiella, F., Fratocchi, L., Pelagagge, P. M., & Scacchia, F. (2002). A Methodological Framework for Innovation Transfer to SMEs. *Industrial Management & Data Systems, 102*(5), 271-283. doi: 10.1108/02635570210428302

Chakrabarti, A. K., & Souder, W. E. (1984). Critical Factors in Technological Innovation and Their Policy Implications. *Technovation, 4*, 255-275.

Chung, S., & Kim, G. M. (2003). Performance effects of partnership between manufacturers and suppliers for new product development: the supplier's standpoint. *Research Policy, 32*(4), 587-603. doi: 10.1016/S0048-7333(02)00047-1

Dickson, P. H., Weaver, K. M., & Hoy, F. (2006). Opportunism in the R&D Alliances of SMEs: The Roles of the Institutional Environment and SME Size. *Journal of Business Venturing, 21*, 487-513. doi: 10.1016/j.jbusvent.2005.02.003

Doloreux, D. (2004). Regional networks of small and medium sized enterprises: evidence from the Metropolitan Area of Ottawa in Canada. *European Planning Studies, 12*(2), 173-189. doi: 10.1080/0965431042000183923

Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic Capabilities: What are They? *Strategic Management Journal, 21*(10/11), 1105.

Field, A. (2013). *Discovering Statistics Using IBM SPSS Statistics*. London: SAGE Publications Ltd.

Filippetti, A., & Archibugi, D. (2011). Innovation in times of crisis: National Systems of Innovation, structure, and demand. *Research Policy, 40*(2), 179-192. doi: 10.1016/j.respol.2010.09.001

González, X., & Pazó, C. (2008). Do public subsidies stimulate private R&D spending? *Research Policy, 37*(3), 371-389. doi: 10.1016/j.respol.2007.10.009

Hagedoorn, J. (2002). Inter-firm R&D Partnerships: An Overview of Major Trends and Patterns since 1960. *Research Policy, 31*, 447-492.

Hewitt-Dundas, N. (2006). Resource and Capability Constraints to Innovation in Small and Large Plants. *Small Business Economics, 26*(3), 257-277. doi: 10.1007/s11187-005-2140-3

Hong, J. S. (2008). Factor Analysis for Industry-University R&D Collaborations in SMEs. *KIET Industrial Economy, 2*, 38-49.

Kaminski, P. C., de Oliveira, A. C., & Lopes, T. M. (2008). Knowledge transfer in product development processes: A case study in small and medium enterprises (SMEs) of the metal-mechanic sector from São Paulo, Brazil. *Technovation, 28*(1–2), 29-36. doi: 10.1016/j.technovation.2007.07.001

Kang, K. N., & Park, H. (2012). Influence of Government R&D Support and Inter-Firm Collaborations on Innovation in Korean Biotechnology SMEs. *Technovation, 32*, 68-78. doi: 10.106/j.technovation.2011.08.004

Kaufmann, A., & Tödtling, F. (2001). Science–industry interaction in the process of innovation: the importance of boundary-crossing between systems. *Research Policy, 30*(5), 791-804. doi: 10.1016/S0048-7333(00)00118-9

Lach, S. (2002). Do R&D Subsidies Stimulate or Displace Private R&D? Evidence from Israel. *The Journal of Industrial Economics, 50*(4), 369-390.

Lee, S., Park, G., Yoon, B., & Park, J. (2010). Open Innovation in SMEs - An Intermediated Network Model. *Research Policy, 39*, 290-300. doi: 10.1016/j.respol.2009.12.009

Levine, R. (2005). Finance and Growth: Theory and Evidence. In P. Aghion & S. Durlauf (Eds.), *Hanbook of Economic Growth*. Amsterdam: North-Holland Elsevier Publishers.

Liefner, I., Hennemann, S., & Xin, L. (2006). Cooperation in the Innovation Process in Developing Countries: Empirical Evidence from

Zhongguancun, Beijing. *Environment and Planning A, 38*, 111-130. doi: 10.1068/a37343

Motohashi, K. (2008). Growing R&D Collaboration of Japanese Firms and Policy Implications for Reforming the National Innovation System. *Asia Pacific Business Review, 14*(3), 339-361. doi: 10.1080/13602380802116773

Narula, R. (2004). R&D Collaboration by SMEs: New Opportunities and Limitations in the Face of Globalisation. *Technovation, 24*, 153-161. doi: 10.1016/S0166-4972(02)00045-7

Nieto, M. J., & Santamaría, L. (2007). The Importance of Diverse Collaborative Networks for the Novelty of Product Innovation. *Technovation, 27*, 367-377. doi: 10.1016/j.technovation.2006.10.001

Pender, M. (2014). The Impact of Venture Capital on Innovation Behavior and Firm Growth. In J. E. Daily, F. S. Kieff & A. E. Wilmarth (Eds.), *Perspectives on Financing Innovation*. Oxon: Routledge.

Romijn, H., & Albaladejo, M. (2002). Determinants of Innovaiton Capability in Small Electronics and Software Firms in Southeast England. *Research Policy, 31*, 1053-1067.

Schilling, M. A. (2013). *Strategic Management of Technological Innovations*. New York, New York: McGraw-Hill.

Shan, W., Walker, G., & Kogut, B. (1994). Interfirm Cooperation and Startup Innovation in the Biotechnology Industry. *Strategic Management Journal, 15*, 387-394.

Sharif, N. (2003). The Role of Firms in the National System of Innovation (NSI) Framework: Examples from Hong Kong. *Innovation: Management, Policy & Practice, 5*(2-3), 189-199.

Siu, W. S. (2005). An Institutional Analysis of Marketing Practices of Small and Medium-Sized Enterprises (SMEs) in China, Hong Kong and Taiwan. *Entrepreneurship & Regional Development: An International Journal, 17*(1), 65-88. doi: 10.1080/0898562052000330306

Smallbone, D., North, D., Roper, S., & Vickers, I. (2003). Innovation and the Use of Technology in Manufacturing Plants and SMEs: an Interregional Comparison. *Environment and Planning C: Government and Policy, 21*, 37-52. doi: 10.1068/c0218

Tether, B. S. (2002). Who Co-operates for Innovation, and Why? An Empirical Analysis. *Research Policy, 31*, 947-967.

van de Vrande, V., de Jong, J. P., Vanhaverbeke, W., & de Rochemont, M. (2009). Open Innovation in SMEs: Trends, Motives and Management Challenges. *Technovation, 29*, 423-437. doi: 10.1016/j.technovation.2008.10.001

Wallsten, S. J. (2000). The Effects of Government-Industry R&D Programs on Private R&D: The Case of the Small Business Innovation Research Program. *The RAND Journal of Economics, 31*(1), 82-100.

Wan, W. P., Hoskisson, R. E., Short, J. C., & Yiu, D. W. (2011). Resource-Based Theory and Corporate Diversification: Accomplishments and Opportunities. *Journal of Management, 37*(5), 1335-1368. doi: 10.1177/0149206310391804

Wang, Y., Vanhaverbeke, W., & Roijakkers, N. (2012). Exploring the Impact of Open Innovation on National Systems of Innovation - A Theoretical Analysis. *Technological Forecasting & Social Change, 79*. doi: 10.1016/j.techfore.2011.08.009

Wang, Y., & Yao, Y. (2002). Market Reforms, Technological Capabilities and the Performance of Small Enterprises in China. *Small Business Economics, 18*, 197-2002.

Wang, Y., & Zhou, Z. (2011). Building an Integrative Framework for National Systems of Innovation. *Journal of Knowledge-Based Innovation in China, 3*(3), 160-170. doi: 10.1108/17561411111167836

Xie, X., Zeng, S., Peng, Y., & Tam, C. (2013). What Affects the Innovation Performance of Small and Medium-Sized Enterprises in China? *Innovation: Management, Policy & Practice, 15*(3), 271-286. doi: 10.5172/impp.2013.15.3.271

Zeng, S. X., Xie, X. M., & Tam, C. M. (2010). Relationship Between Cooperation Networks and Innovation Performance of SMEs. *Technovation, 30*, 181-194. doi: 10.1016/j.technovation.2009.08.003

Zhang, J., Hoenig, S., Di Benedetto, A., Lancioni, R. A., & Phatak, A. (2009). What Contributes to the Enhanced Use of Customer, Competition and Technology Knowledge for Product Innovation Performance? A Survey of Multinational Industrial Companies' Subsidiaries Operating in China. *Industrial Marketing Management, 38*, 207-218. doi: 10.1016/j.indmarman.2008.12.007

Merger and Acquisition Performance: A Review of the Literature

Thomas McBride

Merger & Acquisition (M&A) success is a complex phenomenon (Cartwright & Schoenberg, 2006). History tells us that M&As have failed to meet performance expectations (Tuch & O'Sullivan, 2007; Martynova and Renneboog, 2008; Gregory, 1997; Kennedy & Limmack 1996; Sudarsanam & Mahate 2003), yet M&As continue to be at the heart of corporate growth strategies (Shimzua, 2004). This has attracted huge academic interest, particularly so since the 1980s (Cartwright & Schoenberg, 2006), and has resulted in massive amounts of empirical research being conducted through a variety of theoretical lenses across a number of different management disciplines. Research has been most prominent within the fields of finance, organisational behaviour and strategic management, with significant attention given to M&A success factors (Larsson & Finkelstein, 1999; Zollo & Meier, 2008). This literature review seeks to provide an overview of M&A success factors and provide recommendations for future research from the strategic management perspective whilst recognising the interdependencies within the fields of finance and organisational behaviour. It is presented that it is an appropriate time to review M&A success factors given the likelihood that a new merger wave is underway (Bauer & Matzler, 2014).

The concept of merger waves, M&A activity that has occurred in cyclical clusters throughout history is one of the most prominent theories found in the M&A literature (Duchin & Schmidt, 2013; Brealey & Myers, 2003). Bauer & Matzler (2014) make clear that it is likely that a new merger wave has begun, with M&A activity on the rise following the financial crisis. The literature presents two main reasons for why merger waves have occurred: industry shocks and misvaluation of financial markets (Duchin & Schmidt, 2013; DePamphilis, 2010; Harford, 2005). Industry shocks relate to major changes in the regulatory environment or to technological innovation; the revolution of the internet being a prime example (Mitchell & Mulherin, 1996; Jovanovic & Braguinsky, 2004). The misvaluation of financial markets idea involves firms taking advantage of the opportunity to buy undervalued firms (Rhodes-Kropf, Robinson & Viswanathan, 2005; Shleifer, & Vishny, 2003). This occurs during times when there is a high level of liquidity in financial markets, capital is cheap and easily available, and firms are eager to grow (Harford, 2005). While debate surrounds which driver has had most impact, these concepts are not mutually exclusive and both have played a part in driving M&A activity interdependently (Harford, 2005; Duchin & Schmidt, 2013; DePamphilis, 2010).

Given that global markets, particularly the US economy, have recovered from the worst of the 'credit crisis', opportunities exist for stronger firms to grow by acquisition and take advantage of undervalued firms (Bauer & Matzler, 2014). Furthermore Longstaff (2010) highlights that the 'credit crisis' caused an overhaul of the regulatory environment to prevent history from repeating itself. This could prove to be an industry shock which initiates

This assignment was for MANT437 Strategic Management
Supervised by Dr Conor O'Kane

a boom in M&A activity; only time will tell. Therefore given the likelihood that a new merger is underway (Bauer & Matzler, 2014), it is an appropriate time to re-analyse M&A success factors, especially given that M&A activity has traditionally failed to deliver positive returns (Tuch & O'Sullivan, 2007; Martynova and Renneboog, 2008; Gregory, 1997; Kennedy & Limmack 1996; Sudarsanam & Mahate 2003).

A closer inspection of previous merger waves, creates a clearer understanding of Bauer & Matzlers' (2014) argument that a new merger wave has already begun. These timings relate primarily to the US, but they also represent periods of increased M&A activity in the UK and Europe, particularly so in the most recent merger wave (DePamphilis, 2010). DePamphilis (2010) defines three such merger waves that have occurred since the 1980s:

Firstly, the Retrenchment Era (1981-1989) which witnessed the rise of corporate raiders and hostile takeovers. Acquisitions financed by significant amounts of borrowed money, and takeover strategies involving leveraged buyouts (LBOs) became widespread (DePamphilis, 2010). This was made possible due to a weak regulatory environment and the availability of cheap credit through junk bond markets (Martynova & Renneboog, 2008). This form of aggressive takeover had rarely been seen before, and resulted in huge wealth gains for the era's most successful corporate raiders (Holmstrom & Kaplan, 2001). This era is also defined by the exponential rise in foreign takeovers of US companies. Foreign buyers sought to take advantage of the size of the US market, limited M&A regulatory requirements and a weak US dollar compared to other major world currencies (DePamphilis, 2010).

Secondly, the Age of the Strategic Mega-Merger (1992-2000) which occurred as a result of the longest stock market boom in US history. During this period there was an urgency amongst firms to grow and to outsize competitors (DePamphilis, 2010). This resulted in greater numbers and deal sizes of M&A transactions than ever before. Acquisitions in 1997 alone were valued more than all the acquisitions that occurred during the 1980s, (Hitt et al, 2001). This massive rise in M&A activity was largely fuelled by the internet revolution, privatization within US industries and increasingly globalised financial markets. The internet bubble burst in the late 1990s, and with recession hitting the US in 2001, global growth and M&A activity declined (DePamphilis, 2010). .

Thirdly, the Rebirth of Leverage Era (2003-2007) witnessed enormous growth and complexity in the sales of financial instruments and securities. Securities collateralized by numerous debt layers, and hence risk, began to characterize financial markets, leading to companies being afforded cheap and easily available credit (DePamphilis, 2010; Harford, 2005). Together with limited regulation and the rapid rate of growth in international trade, this presented expansion opportunities for companies through highly leveraged M&A activity (DePamphilis, 2010). This excessive use of credit in financial markets ultimately led to a financial crisis in 2007 causing a major decline in M&A activity (Longstaff, 2010).

M&A Performance

M&A performance has been the subject of extensive debate in the literature. It is highlighted that there has been major inconsistencies relating to measurement of performance and actual performance (Tuch & O'Sullivan, 2007; Zollo & Meier, 2008). Also M&A performance has been viewed from a number of different stakeholder perspectives, adding to the complexity of judging overall M&A. In most instances, empirical research has viewed M&A performance from the perspective of acquiring company shareholders, but also from the perspective of target company shareholders performance (Bauer & Matzler, 2014; DePamphilis, 2010; Tuch & O'Sullivan, 2007). A growing area in the literature has been the future employment implications, based on performance, from the perspective of senior management in both the acquiring and target firms (Tuch & O'Sullivan, 2007). To a lesser extent, research has looked into the performance benefits on wider society (DePamphilis, 2010).

From the shareholder perspective, research has defined performance based on the creation, or not, of shareholder value (Zollo & Meier, 2008; Tuch & O'Sullivan). As agency theory states, managers engage in M&As, on behalf of shareholders best interests, aiming to achieve greater corporate profitability and increases in shareholder wealth (Donaldson & Davis, 1991). Although in reality M&A motives are much more complex. Many studies have pointed towards self-interests of senior managers being central to M&A motives (Tuch & O'Sullivan, 2007; Gaughan, 2004). This has arisen from managers seeking to 'empire build' and their belief in becoming more successful through growth and synergy creation (Gaughan, 2004). Also managers face external pressure to 'buy so not to be bought' (Tuch & O'Sullivan, 2007) and will often react to competitors engaging in M&A activity (Shimzua et al, 2004).

As mentioned earlier, there is a clear lack of consensus both across and within different management disciplines on how to measure M&A performance (Zollo & Meier, 2008). The fields of finance and economics have tended to focus solely on quantitative research and the use of financial return indicators, mostly revolving around using share price and accounting data. While the fields of strategic management and organisational behaviour have looked into qualitative measures such as subjective assessments of synergy realisation or post-merger integration effectiveness, as well as quantitative measures (Tuch & O'Sullivan, 2007; Zollo & Meier, 2008). However, most common in the literature has been to analyse performance based on quantitative methodologies using share price and accounting data (Zollo & Meier, 2008).

Research that has used share price measures has tended to conduct both short-run and long-run event studies to analyse the acquiring company share price reactions (Tuch & O'Sullivan; Martynova & Renneboog, 2008). Short-run studies have looked at share price movements from a few days before and after the acquisition announcement, up to a few months before and after the acquisition announcement. Long-run studies have looked at share price movements up to as much as five to ten years after the acquisition has closed. According to Zollo & Meier (2008), share price data measurement has proved most popular due to its objectivity and definitive measurement parameters. This is based on a study they conducted, reviewing empirical studies that looked into M&A performance published in leading management and finance journals between 1970 and 2006. Results showed that 41% of studies used the share price event study method, which represented the most popular measurement methodology. In second place with 28% was the use of accounting data.

Accounting measures have included the analysis of acquiring company net income, sales, return on assets, return on equity, earnings per share, firm liquidity, profit margins and others, before and after the acquisition (Martynova and Renneboog, 2008; Tuch & O'Sullivan, 2007). There are however clear downfalls of using accounting measures, including the difficulties of isolating the takeover effect, amongst a host of external factors. Furthermore accounting measures are open to greater impartiality compared with share price measures, due to the susceptibility of manipulation of earnings and accounting policy changes (Zollo & Meier, 2008). Also accounting studies have used different time frames, sample sizes and data parameters, which makes meaningful comparisons more challenging (Tuch & O'Sullivan, 2007).

Given the measurement complexities, it is easy to see why M&A performance has produced variable results (Zollo & Meier, 2008). Although there have been clear measurement difficulties, this should not obstruct the overall view that M&A performance has been historically poor (Tuch & O'Sullivan, 2007; Martynova and Renneboog, 2008; Gregory, 1997; Kennedy & Limmack 1996, Sudarsanam & Mahate 2003). From the massive amounts of empirical research that has been dedicated to analysing post-acquisition performance, the overarching view is that M&As have historically failed to deliver value for shareholders, both in the short-run (Franks et al, 1989; Holl & Kyriazis 1997; Higson & Elliot 1998) and long-run (Firth, 1980; Gregory, 1997; Kennedy & Limmack 1996, Sudarsanam & Mahate 2003). Comprehensive short run studies analysing share price data, such as Sudarsanam & Mahate (2003), Higson & Elliot (1998), and Gupta & Misra (2004) produced negative abnormal returns of -1.4%, - 1.7% and -1.5% respectively. Only studies by Franks et al (1989) and Ben-Amar & Andre (2006) showed signs of positive returns. This theme of negative performance is even more significant in long-run studies with Frank & Harris (1989), Agrawal et al, (1992) and Conn et al (2005) producing negative abnormal returns of -12.6%,-10.6% and -19.78% respectively. While event study research presents an overwhelming negative picture of M&A performance, research using accounting data is not so clear cut. Healy et al's (1992), study found positive returns of 2.8% over 5 years following bid announcements, and Linn & Switzler's (2001) study produced positive average returns of 1.81% over 5 years following bid announcements . While on the other hand Lu (2004) and Bild et al (2005) found mildly negative returns in their studies.

M&A Success Factors

Given such dismal performance, despite an increasing popularity of M&A activity through the merger waves (DePamphilis, 2010; Harford, 2005), it is important to review success and failure factors. Before going into greater detail, it is useful to get an overview of the scope of research dealing with M&A success and failure factors, from the perspective of different management disciplines. Research has largely been conducted by four main schools, identified as the financial-economic, strategic management, organisational behaviour and process schools by Bauer & Matzler (2014).

Firstly the financial-economic school, which is arguably the most prominent in the literature, has analysed the effects of different bid characteristics on the financial performance of M&As (Bauer & Matzler, 2014). These bid characteristics have included the mood of the bid (friendly or hostile), method of payment, industry relatedness and the relative size of the target and bidder firms (Tuch & O'Sullivan, 2007). Secondly, the strategic management school has looked at M&As as a key component of corporate strategy (Bauer & Matzler, 2014; Cartwright & Schoenberg, 2006). Within a resource-based view (RBV) of strategy, M&As can play a fundamental role in opening up market opportunities and the transfer of non-marketable resources and capabilities (James, 2010). Strategic management theorists have addressed the concept of 'strategic fit' of bidding and target companies, in great detail to explain M&A performance (Cartwright & Schoenberg, 2006). Thirdly, the organisational behaviour school has looked closely at post-merger issues such as cultural fit and speed of integration (Epstein, 2005; Bauer & Matzler, 2014). A fourth school, derived from aspects of strategic management and organisational behaviour is the process school. The process perspective has been an emergent area of research and looks at the role the overall acquisition process, in itself, can play (Bauer & Matzler, 2014; Colombo et al, 2007). This encompasses the strategies and implementation of the pre-merger planning, negotiation and the post-merger integration stages (Weber et al, 2011). The process school has also looked closely into the area of learning from previous acquisition experiences and how this knowledge can be used to improve future transactions (Haleblian & Finkelstein, 1999; Colombo et al, 2007).

It is argued that the majority of research has been conducted from a single school perspective, with a failure to combine research across management disciplines. (Larsson & Finkelstein, 1999; Bauer & Matzler, 2014). As a result of this fragmented approach, a holistic understanding of M&A performance has not been achieved (Larsson & Finkelstein, 1999). Given that M&As are a highly complex, multifaceted phenomena, there is certainly scope for further research to adopt a cross discipline perspective (Bauer & Matzler, 2014).

M&A success factors can generally be divided into stages of the M&A process. It is common in the literature to divide the M&A process into three stages: the premerger planning stage, the negotiation stage and the post-merger integration stage (Weber et al, 2011). While many studies have addressed a combination of these stages, most studies however, have looked at individual variables within one of these stages (Larsson & Finkelstein, 1999). For instance, target selection within the premerger planning stage, bid premium in the negotiation stage or cultural fit within the post-merger integration stage. Therefore as mentioned earlier, the majority of literature has failed to develop a deeper and more holistic understanding of the whole M&A process and its success factors (Larsson & Finkelstein, 1999). Therefore future research should look to take a multi-faceted approach, looking at success factors across the M&A three stage process, whilst also viewing M&A performance across different management disciplines (Bauer & Matzler, 2014; Larsoon & Finkelstein, 1999). Within the three stage process, research has been particularly widespread in analysing the strategic fit of M&As in the pre-merger planning stage (Homburg & Bucerius, 2006; Seth, 1990), and particularly widespread in the analysis of the integration process in the post-merger integration stage (Epstein, 2005; Kansal & Chandani, 2014, Tuch & O'Sullivan, 2007) Far less research has been conducted on the negotiation stage (Weber et al, 2011).

Pre-merger planning literature has centred on the concept of strategic fit (Homburg & Bucerius, 2006; Seth, 1990). A broad definition of strategic fit relates to a firm gaining competitive advantages from having resources and capabilities that correspond with opportunities in the external environment. Relating to M&As more specifically, strategic fit can be viewed as two firms having closely aligned goals, and opportunities for mutual benefit (Das & Teng, 2000). It is measured by the synergy potential or value creation of the brought-together assets of the combined entity (Hitt & Vaidyanath 2002; Shelton 1988).

Assessing strategic fit begins in the pre-merger planning process through which target selection and due diligence are key components for an acquiring company (Capron & Shen, 2007). Often, M&A opportunities will simply present themselves, such as a key supplier facing liquidation or an undervalued competitor becoming an attractive target. But often firms will set out a strategy of growth by acquisition, and must analyse the external environment (Shimzua, 2004). Target selection involves intensive research and analysis of viable M&A opportunities and selecting the option that offers the most lucrative returns or synergy potential. Through intensive due diligence firms can identify strengths and weaknesses of potentials targets and if synergy can be created (Capron & Shen, 2007). This planning and preparation is a crucial part of any takeover and will have a decisive impact on its future success (Weber et al, 2011).

The view that strategic fit is a fundamental factor in determining the overall success of an M&A is supported by a number of scholars (Homburg and Bucerius, 2006; Seth, 1990; Pehrsson, 2006; Stimpert and Duhaime, 1997). The strategic management school has been most prominent within this stage, and from a resource based perspective, scholars have analysed product, market, asset and supply chain similarity between acquiring and target companies (Pehrsson, 2006; Stimpert and Duhaime, 1997). Researchers have regularly suggested that higher levels of similarity produce greater synergy potential and ultimately greater merger performance (Capron et al, 2001: Prabhu et al, 2005; Tanriverdi & Venkatraman, 2005).

A popularly cited sub component of strategic fit is industry relatedness which is the degree to which firms are active in related markets (Neffke, Henning, & Boschma, 2011). A common theme in the literature is that acquisitions with high industry relativeness, have much higher chances of success than firms in fundamentally different industries (Ahuja & Katila, 2001; Balland, Boschma, & Frenken, 2014). This is because synergies based on technological and knowledge transfer are far likely to likely to be exploited within similar firms with similar resource and capabilities. Additionally a high level of relatedness will likely make the post-merger integration process easier since the acquirer already has the capabilities to absorb the acquired capabilities (Cohen & Levinthal, 1990; Mowery et al., 1996). Furthermore it is natural that M&A activity will occur within the same industry, given that managers are more likely to identify acquisition opportunities in industries that they have prior knowledge and experience. This will tend to occur through acquisition of competitor firms through horizontal integration (Kor & Mahoney, 2004). On the whole, results are inconsistent regarding M&A performance and industry relatedness (Ahuja & Katila, 2001). However, all things equal, firms will generally acquire companies that offer the greatest performance returns, regardless of the level of level of industry relatedness (Bryce & Winter, 2009)

Shelton (1998) puts forward that strategic fit is much more complex, than simply analysing the level of similarity and industry relatedness and that each individual M&A is highly contextual. Shelton's (1998) model of strategic fit between a target and a bidder business demonstrates the variations of how strategic fit can be achieved. The model relates strategic fit to four acquisition classifications: identical, unrelated, related complementary and related supplementary. For example, the identical classification involves an M&A of two entities with similar product and customers, while the unrelated classification involves two entities with completely different product and customers. The model does not depict a scale of the optimal strategic fit but highlights how firms can create strategic fit to suit their own unique situation, whether they need to add new products or serve new customers. Thus strategic fit is subjective, contextual and will ultimately be based upon the firms needs to gain more products or customers. Furthermore strategic fit can only come to fruition through the effectiveness of the post-merger integration phase (Epstein, 2005).

Huge amounts of literature has been devoted to post merger integration (Tuch & O'Sullivan; Kansal & Chandani, 2014; Adams & Neely, 2000). The integration process involves combining two entities with different operations, values and culture into one cohesive unit (Kansal & Chandani, 2014). Epstein (2005), makes clear that while a number of factors determine the success of an M&A such as strategic fit, deal structure, pre-merger planning and the external environment, it is the actual execution of the post-merger integration phase that is the critical element (Epstein, 2005). Adams & Neely (2000) support this view, arguing that ineffective integration is the single most popular reason for M&A failure. It is presented that even a well-conceived merger, with fundamentally sound design, deal structure and strategic fit, can easily be destroyed by a weakly implemented post-merger integration (Epstein, 2005). It is argued that despite huge research attention, post-merger integration is still profoundly misunderstood (Epstein, 2005). Judging by historical M&A performance, this would certainly appear to hold true.

Shrivistava (1986) makes clear that post-merger integration is extremely challenging, emphasising that often even within a single organisation, integration and coordination is difficult between functionally different departments. Often departments do not share common goals, have different cultures and operate by different standards which can lead to competition and rivalry. These problems can then be multiplied and compounded through M&A's when further integration and coordination is required. Shrivistava (1986) further highlights the complexities of post-merger integration by stating that integration must take place on a number of different levels, including integration at the procedural, physical and socio-cultural levels. Procedural is regarded as the easiest level of integration and relates to standardizing procedures to increase productivity, through combining common systems such as accounting or payroll. Secondly the integration of physical assets, involves consolidating tangible assets and technologies, such as the amalgamation of production lines or distribution channels to maximise economies of scale. Finally the most difficult of all is cultural integration, the merging of values and routines of the separate entities. These levels of integration help understand the critical success factors of post-merger integration which have largely revolved around the following factors: integration team, communication, culture and speed of integration (Epstein, 2005).

Firstly a strong integration team is required. The team should be well resourced and members should be separate from their core business roles so that they can dedicate their time to the integration process (Epstein, 2005). De Noble, Gustafson & Hergert (1988) highlight that it is wise to make the 'planners' of integration strategy, the 'implementers'. This is to keep the bigger picture in mind and avoid inappropriate action being taken. Also it is important to 'cross-fertizilize' integration teams which involves including managers from both the bidder and target company to avoid causing an 'us versus them' scenario (Quah & Young, 2005; De Noble, Gustafson & Hergert, 1988). The end goal is to create a new corporate identity, therefore it is considered beneficial to exploit the knowledge of managers from both entities (Quah & Young, 2005). Moreover there is a risk that by not fully empowering the acquired company's managers they may leave the company as a result. Studies have provided evidence that nearly 60% of the top managers of acquired companies leave within 5 years (De Noble, Gustafson & Hergert, 1988).

Secondly communication is key (Epstein, 2004; De Noble, Gustafson & Hergert, 1988) and senior management must make it 'significant, constant and consistent.' (Epstein, 2005). Epstein (2005) stresses that over-communication is necessary to ensure that every constituent in the integration process knows exactly what is going to happen, and what their role will be. Furthermore, communication should be specific and detailed and should reach every individual across both entities to avoid ambiguity (De Noble, Gustafson & Hergert, 1988). This communication must be particularly effective in cross border transactions given that problems can be compounded by language, political, regulatory and cultural differences (Angwin, 2004; Quah & Young, 2005). Also the post-merger integration process must be well communicated to suppliers and customers to make the transition as seamless as possible (Epstein, 2004).

Thirdly, a new corporate culture must be fostered. Acquiring firms must seek to combine best practice of both firms to create a common culture. However this is not always easy, given that acquired companies may have distinctive values and routines that are difficult to change (Epstein, 2005). Therefore acquiring companies must put effective acculturation processes in place (De Noble, Gustafson & Hergert, 1988). Acculturation is defined as the process of cultural change and aims to avoid cultural clashes and conflict (Larsson & Lubatkin, 2001). Marks and Mirvis (2011) initiated the concept of 'merger syndrome' which is described as the conflict resulting from different organisational cultures coming together. This can lead to mistrust and alienation amongst managers of opposing firms and higher employee turnover (De Noble, Gustafson & Hergert, 1988). These cultural issues can be more prominent in cross border M&As where both national and organisational culture dynamics add to the complexity of integration (Quah & Young, 2005). This is certainly a growth area of research as China becomes a more prominent player in international M&As (Cartwright & Schoenberg, 2006).

Finally speedy completion of the post-merger integration is viewed as a crucial element of merger success (Epstein, 2005; De Noble, Gustafson & Hergert, 1988; Kansal & Chandani, 2014). There is strong evidence to suggest that speed of integration is positively and significantly correlated with overall merger performance (Epstein, 2005). This is in large part due to speed mitigating risk coming from the external environment and competitive pressures; managing both internal and external change is extremely challenging (Angwin, 2004). This area has also attracted significant interest from practitioners and consultants, seeking practical ways to quicken the integration process (De Noble, Gustafson & Hergert, 1988). Angwin (2004) who emphasises the importance of the first 100 days after the deal announcement, highlights that employees whose jobs are no longer required must be dealt with rapidly and with dignity, to build confidence amongst employees who will remain. This swift action prevents prolonged feelings of uncertainty amongst employees, suppliers and customers, and from a technical point of view, allows operational synergy creation to begin immediately.

While success and failure factors are well known in the pre-merger planning and post-merger integration stages, far less research exists in the negotiation stage, the stage that bridges the gap between the two (Weber et al, 2011). As a massive research area in itself, the field of negotiation has largely focussed on two negotiation styles, integrative (win-win approach) and distributive (zero sum game approach) and negotiation process factors in relation to relationship management, conflict resolution, and reaching agreements (Faure, 1999). The majority of the literature has looked at negotiation within different business settings such as individual face to face or international business negotiations (Ross, & LaCroix,1996). Also significant amounts of attention has been given to negotiating cross culturally (Faure's 1999). Yet little research has addressed negotiation within an M&A context (Weber et al, 2011).

The negotiation stage in the M&A process which involves senior management of both firms coming together to negotiate such issues as deal structure and price, is an underexplored, yet essential area of M&A success (Weber et al, 2011). This stage of an M&A can make or break any future relationships. Failings between the senior managements of both entities could results in a potentially lucrative M&A being aborted (Weber et al, 2011). Also conflicts that arise during the negotiation stage could impact on future working relationships and the success of the post-merger integration process (Epstein, 2005). Furthermore cross cultural negotiation can be even more complex, further emphasising the need to better understand the M&A negotiation stage (Quah & Young, 2005). This area of research provides a lot of scope for practical implications. For example improvements could be made it in the training of negotiator's communication and conflict resolution skills. This could result in lower management turnover, more effective post-merger integration and greater overall M&A performance (Weber et al, 2011).

All of these success factors are highly interrelated both within their stages in the M&A process and across different management disciplines. It must be further emphasised that M&As are highly contextual and that there is no formula for M&A success (Colombo et al, 2007). Furthermore constant changes in the external environment will continue to make M&As extremely challenging (Shimzua, 2004). It is hoped that future research attention is given to viewing M&A success as a process of managing different stages. In particular much scope exists to explore the importance of the negotiation stage and its impact on performance. Additionally, cross cultural M&A transactions will become an increasingly significant research area, particularly because of the emergence of China in international M&As (Cartwright and Schoenberg, 2006). Also it is hoped that this literature review has emphasised the importance of the need to review M&A success factors given the strong likelihood that a new merger wave is underway (Bauer & Matzler, 2014). It will only be with the benefit of hindsight that the occurrence of a new merger wave can be confirmed. Nonetheless, it is important that firms continually look at ways to improve their M&A strategies, to give themselves the best chance of success.

References

Adams, C., & Neely, A. (2000). The performance prism to boost M&A success. Measuring Business Excellence, 4(3), 19-23.

Agrawal, A., Jaffe, J.F., & Mandelker, G. (1992). The post-merger performance of acquiring firms. Journal of Finance, 47, 1605–1621.

Ahuja, G., & Katila, R. (2001). Technological acquisitions and the innovation performance of acquiring firms: A longitudinal study. Strategic management journal, 22(3), 197-220.

Angwin, D. (2004). Speed in M&A Integration: The First 100 Days. European Management Journal, 22(4), 418-430.

Balland, P. A., Boschma, R., & Frenken, K. (2014). Proximity and Innovation: From Statics to Dynamics. Regional Studies, (ahead-of-print), 1-14.

Bauer, F., & Matzler, (2014). Antecedents of M&A success: The role of strategic complementarity, cultural fit, and degree and speed of integration. Strategic Management Journal, 35(2), 269-291

Ben-Amar, W., & Andre, P. (2006). Separation of ownership from control and acquiring firm performance: the case of family ownership in Canada. Journal of Business Finance and Accounting, 33, 517–543.

Bild, M., Guest, P., & Runsten, M. (2005). The effect of takeover on the fundamental value of acquirers. Working Paper, ESRC Centre for Business Research, University of Cambridge, UK.

Brealey, R.A, & Myers, S.C. (2003), Principles of Corporate Finance, international ed. McGraw-Hill, Boston, USA.

Bryce, D. J., & Winter, S. G. (2009). A general interindustry relatedness index.Management Science, 55(9), 1570-1585.

Capron, L., & Shen, J.C. (2007). Acquisitions of Private vs. Public Firms: Private Information, Target Selection, and Acquirer Returns, Strategic Management Journal, 28, 891-911.

Capron, L., Mitchell, W., & Swaminathan, A. (2001). Asset divestiture following horizontal acquisitions: A dynamic view. Strategic Management Journal, 22(9), 817-844.

Cartwright, S., & Schoenberg, R. (2006). 30 Years of Merger and Acquisition Research: Recent Advances and Future Opportunities. British Journal of Management, 17(1), 1-5.

Cohen, W. M., & Levinthal, D. A. (1990). Absorptive capacity: a new perspective on learning and innovation. Administrative science quarterly, 128-152.

Colombo, G., Conca, V., Buongiorno, M., & Gnan, L. (2007). Integrating Cross-Border Acquisitions: A Process oriented Approach. Long Range Planning, 40, 202-222.

Conn, C., Cosh, A., Guest, P., &Hughes, A. (2005). The impact on UK acquirers of domestic, cross border, public and private acquisitions. Journal of Business Finance and Accounting, 32, 815–870.

Das, T.K., & Teng, B.S. (2000). A resource-based theory of strategic alliances. Journal of Management, 26(1), 31-61.

De Noble, D.F., Gustafson, L.T., & Hegert, M. (1988). Planning for Post-merget Integration Eight Lessons for Merger Success. Long Range Planning, 21(4). 82-85.

DePamphilis, D. (2010). Mergers and Acquisitions Basics: All You Need To Know, Elsevier, Burlington, USA.

Donaldson, L., & Davis, J.H. (1991). Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. Australian Journal of Management, 16(1), 1-16.

Duchin, R., & Schmidt, B. (2013). Riding the merger wave: Uncertainty, reduced monitoring, and bad acquisitions. Financial Economics, 107, 69–88.

Epstein, M. J. (2005). The determinants and evaluation of merger success. Business Horizons, 48(1), 37-46.

Faure, G. O. (1999). The Cultural Dimensions of Negotiation: The Chinese Case. Group Decision & Negotiation, 8, 187-215.

Firth, M. (1980). Takeovers, shareholder returns and the theory of the firm. Quarterly Journal of Economics, 94, 235–260.

Franks, J., Harris, R.S. & Titman, S. (1991). The post-merger share price performance of acquiring firms. Journal of Financial Economics, 29, 81–96.

Gaughan, P. A. (2004). M&A lesson: Beware of empire builders. Journal of Corporate Accounting & Finance, 15 (2), 21-23.

Gregory, A. (1997). An examination of the long run performance of UK acquiring firms. Journal of Business Finance and Accounting, 24, 971–1007.

Gupta, A., & Misra, L. (2004). Deal size, premium paid and the gains in financial mergers: the impact of managerial motivation. Working Paper, Bentley College of Business, USA.

Harford, J. (2005). What drives merger waves? Journal of Financial Economics, 77, 529–560.

Healy, P.M., Palepu, K.G., & Ruback, R. (1992). Does corporate performance improve after mergers? Journal of Financial Economics, 31, 135–175.

Higson, C., & Elliot, J. (1998). Post-takeover returns: the UK evidence. Journal of Empirical Finance, 5, 27–46.

Hitt, M.A, & Vaidyanath, D. (2002). Alliance management as a source of competitive advantage. Journal of Management, 28(3), 413-446.

Hitt, M.A., et al (2001). Mergers and Acquisitions: A Guide to Creating Value for Stakeholders. Oxford University Press, Oxford, U.K.

Holl, P. & Kyriazis, D. (1997). Wealth creation and bid resistance in UK takeover bids. Strategic Management Journal, 18, 483–498.

Holmstrom, B., & Kaplan, S.N. (2001). Corporate Governance and Merger Activity in the United States: Making Sense of the 1980s and 1990s. Journal of Economic Perspective, 15(2), 121-144.

Homburg, C., & Bucerius, M. (2006). Is speed of integration really a success factor of mergers and acquisitions? An analysis of the role of internal and external relatedness. Strategic Management Journal, 27(4),347-367.

J. Haleblian, J., & Finkelstein, S. (1999). The Influence of Organizational Acquisition Experience. Administrative Science Quarterly, 44, 29-56.

Jovanovic, B., & Braguinsky, S. (2004). Bidder discounts and target premia in takeovers. American Economic Review, 94, 46–56.

Kansal, S., & Chandani, A. (2014). Effective Management of Change During Merger and Acquisition. Procedia Economics and Finance, 11, 208-217.

Kennedy, V.A., & Limmack, R.J. (1996). Takeover activity, CEO turnover and the market for corporate control. Journal of Business Finance and Accounting, 23, 267–285.

Kor, Y. Y., & Mahoney, J. T. (2004). Edith Penrose's (1959) Contributions to the Resource-based View of Strategic Management. Journal of management studies, 41(1), 183-191.

Larsson, R., & Finkelstein, S. (1999). Integrating Strategic, Organizational, and Human Resource Perspectives on Mergers and Acquisitions: A Case Survey of Synergy Realization. Organization Science, 10(1), 1-27.

Larsson, R., & Lubatkin, M. (2001). Achieving acculturation in mergers and acquisitions: An international case survey. Human Relations, 54(12), 1573-1607.

Linn, S.C, & Switzer, J.A. (2001). Are cash acquisitions associated with better post combination operating performance than stock acquisitions? Journal of Banking and Finance, 25, 1113–1138.

Longstaff, F.A. (2010). The subprime credit crisis and contagion in financial markets. Journal of Financial Economics, 97, 436–450.

Lu, Q. (2004). Do mergers destroy value? Evidence from failed bids. Working Paper, Kellogg School of Management, Northwestern University, USA.

Marks, M. L., & Mirvis, P. H. (2011). Merge ahead: A research agenda to increase merger and acquisition success. Journal of business and psychology, 26(2), 161-168.

Martynova, M., & Renneboog, L. (2008). A century of corporate takeovers: What have we learned and where do we stand? Journal of Banking & Finance, 32, 2148–2177.

Mitchell, M., & Mulherin, J. (1996). The impact of industry shocks on takeover and restructuring activity. Journal of Financial Economics, 41, 193–229.

Mowery, D. C., Oxley, J. E., & Silverman, B. S. (1996). Strategic alliances and interfirm knowledge transfer. Strategic management journal, 17(S2), 77-91.

Neffke, F., Henning, M., & Boschma, R. (2011). How do regions diversify over time? Industry relatedness and the development of new growth paths in regions. Economic Geography, 87(3), 237-265.

Pehrsson, A. (2006). Business relatedness measurements: State-of-the-art and a proposal. European Business Review, 18(5), 350-363.

Prabhu, J. C., Chandy, R. K., & Ellis, M. E. (2005). The impact of acquisitions on innovation: poison pill, placebo, or tonic? Journal of Marketing, 69(1), 114-130.

Quah, P., & Young, S. (2005). Post-acquisition Management: A Phases Approach for Cross-border M&As. European Management Journal, 23(1), 65-75.

Rhodes-Kropf, M., Robinson, D.T., & Viswanathan, S. (2005). Valuation waves and merger activity: the empirical evidence. Journal of Financial Economics, 77, 561–603.

Ross, W., & LaCroix, J. (1996). Multiple meanings of trust in negotiation theory and research: A literature review and integrative model. International Journal of Conflict Management, 7(4), 314-360.

Seth, A. (1990) Sources of value creation in acquisitions: an empirical investigation. Strategic Management Journal, 11(6), 431-446.

Shelton, L. M. (1988). Strategic business fits and corporate acquisition: Empirical evidence. Strategic Management Journal, 9(3), 279-287.

Shimzua, K., et al. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. Journal of International Management, 10, 307-353.

Shleifer, A., & Vishny, R.W. (2003). Stock market driven acquisitions. Journal of Financial Economics, 70, 295– 311.

Shrivastava, P. (1986). Post-merger Integration. Journal of Business Strategy, 7, 65-76.

Stimpert, J. L., & Duhaime, I. M. (1997). Seeing the big picture: The influence of industry, diversification, and business strategy on performance. Academy of Management Journal, 40(3), 560-583.

Sudarsanam, S., & Mahate, A.A. (2003). Glamour acquirers, method of payment and post acquisition performance: the UK evidence. Journal of Business Finance and Accounting, 30, 299–341.

Tanriverdi, H., & Venkatraman, N. (2005). Knowledge relatedness and the performance of multibusiness firms. Strategic Management Journal, 26(2), 97-119.

Tuch, C., & O'Sullivan, N. (2007). The impact of acquisitions on firm performance: A review

Weber, Y., Belkin, T., & Tarba, S.Y. (2011). Negotiation, Cultural Differences, and Planning in Mergers and Acquisitions. *Journal of Transnational Management, 16*, 107-115.

Zollo, M., & Meier, D. (2008). What is M&A Performance? *Academy of Management Perspectives, 22*(3), 55-77.

A Western Perspective of Guanxi and its Importance in 21st Century China

Thomas McBride

Introduction

It has long been argued that guanxi is an essential component to conducting business in China (Bedford, 2011). Guanxi is a complex phenomenon deeply embedded in Chinese culture and relates to social networking and the formation of special relationships (Park & Luo, 2001). It first became a popular concept to Western scholars in the 1980s as Western businesses sought to gain understanding of cultural factors affecting business in China. Research has continued to explore the role of guanxi; notably its importance for business success and how it is gained and maintained in the business environment (Fan, 2002). Throughout this period China has experienced a radical process of economic and political reform that has transformed its society into a market system economy in less than three decades (Wood, Whiteley, & Zhang, 2001). Economic growth has averaged 10% since 1979 and can be attributed to a surge of Foreign Direct Investment (FDI). Dramatic economic, political, social and legal transformation has been witnessed a result of increasing Western influence on Chinese society (Braendle, Gasser, & Noll, 2005). Therefore given major institutional changes that have occurred, it is necessary to analyse the role of guanxi in 21st century China in which a new business environment exists (Chang, 2011). It is presented that the role of guanxi has changed despite it having a long history of being an "inseparable part of doing business in China"(Buckley, Clegg, & Tan, 2006). Many scholars would highlight that the importance of guanxi has weakened as a direct result of China's open door policy to FDI, and the dwindling of institutionalized business practices (Yuan, Kim, Dai, & Arnulf, 2013). On the contrary, opposing scholars propose that because guanxi is so culturally engrained, it will continue to play an important role in the future of China's economic boom (Chang, 2011). These deeply embedded cultural factors stem from Confucianism, which forms the foundations of Chinese society and the importance placed in family, harmonious relationships and collective thinking (Anderson & Lee, 2008).

Confucianism

Confucianism is a social philosophy, rather than a religion (Park & Luo, 2001). Confucian beliefs are based on the teachings of Confucian who was a Chinese philosopher who placed human beings in reference to significant others, notably family members and masters of one's learning and career as opposed to religions such as Christianity in which people are viewed in relation to god (Hutchings & Murray, 2002b). Confucianism seeks to create a harmonious society through strong family ties and strict social order (So & Walker, 2006). Emphasis on hierarchy and status within Chinese culture has significant bearing on the levels of respect and obedience within

This assignment was for MANT439 Management in Asia
Supervised by Prof André Everett

relationships. This respect for authority is clear to see within business settings with Chinese managers having more of a dictatorial approach than those of Western counterparts. (Luo, 2000). Additionally subordinates in China are much more agreeable, and fear defying their superiors, to prevent their managers from losing face (Z. Chen, Huang, & Sternquist, 2011). Face, known as mianzi in China is a very important concept in Chinese culture, and is seen as a vital component of protecting one's dignity and reputation. Hence a relationship can only be established by recognising and respecting an individual's social standing and authority (Buckley & Tan, 2006). Equally important is the practice of renqing, the act of repeated exchange of favours which binds a relationship together based on mutual obligation (Park & Luo, 2001). Both mianzi and renqing are central to fostering relationships in China and help us to understand and define guanxi (Buckley & Tan, 2006).

Definition

Guanxi is regarded as the Chinese concept of special interpersonal relationships, involving trust, mutuality of interests, and reciprocity of favours (Buttery & Wong, 1999). Gold (1985) states "guanxi is a power relationship as ones control over a valued good or access to it gives power over others" with Osland (1990) adding: "… a special relationship between a person who needs something and a person who has the ability to give something." Fan (2002) alludes to Pye's (1982) definition describing guanxi as "friendship with implications of continued exchange of favours." The above definitions focus in on interactions and personal favours exhibited on an individual level. The majority of the literature considers guanxi on this level, however it is widely accepted that guanxi carries multiple meanings and is much broader than simply a special relationship between two people (Fu & Dess, 2006). As a networking phenomenon, building guanxi relates to establishing and maximizing a web of connections of which can be at the individual, business or government level (Fan, 2002). There is substantial overlap between individual and organisational guanxi (Chang, 2011). Business to business guanxi relates to developing special relationships at an organisational level and creating opportunities for mutual gain, much in the same way as guanxi creation between two individuals (Fan, 2002). Additionally, developing guanxi is not exclusive to Chinese individuals and organisations. Widespread literature exists as to how Western businesses can gain guanxi to become more successful in China (Hutchings & Murray, 2002b). However, it is also widely appreciated that guanxi is a unique and complex concept, difficult for Westerners to fully understand or gain (Bedford, 2011). This is because guanxi is a cultural characteristic deeply embedded in Chinese history and has more profound meanings than its most simplistic English translated equivalent of "special relationships" or "connections" (Park & Luo, 2001). The fundamentals of gaining guanxi have been instilled in Chinese people over thousands of years (So & Walker, 2006). This is rooted in guanxi bases which forms the foundations to which guanxi can be established (X. P. Chen & Chen, 2004).

Guanxi Bases

It is argued that the concept of guanxi is not fully understood without taking into consideration guanxi bases (X.P. Chen & Chen, 2004). Guanxi bases commonly relates to the foundation to which guanxi can form and the existence of a particularistic tie or shared identification between two parties (C. C. Chen, Chen, & Huang, 2013). Jacobs (1982) differentiated base of guanxi into three distinct groups: family ties (kinship), familiar person (e.g. school classmates or work colleagues) and strangers, highlighting that different principles of interaction and relationship closeness will be displayed at different base levels (Chang, 2011). Traditionally guanxi would develop based on blood ties, extending through from close family members to distant relations and clan members (X.P. Chen & Chen, 2004). This ties in with the concentric circles model of guanxi, which highlights that the relationship closeness and level of positive affection is much richer with family members at the core level, and becomes less pure spanning outwards through extended family, school friends and work networks. Acquaintances and strangers would be on the periphery, experiencing the lowest level of relationship closeness (Park & Luo, 2001). As such it is proposed that at each outgoing level, there is a sense of decreasing guanxi quality in terms of future mutual benefit potential and longevity of the relationship (C.C. Chen, Chen, & Huang, 2013). Therefore as a result of guanxi having strong family and cultural roots it is argued that Western managers can never fully experience guanxi at its most intimate level (N. Y. Chen & Tjosvold, 2007). As categorised as an outsider, Westerners will fail to have a "commonality of shared identification" (Jacobs, 1982). However as mentioned earlier, guanxi is a complex concept with multifaceted meanings, and it is important to note that while a base of guanxi may exist, guanxi is a process of selective attachment, especially so in modern day China (Chung, 1999).

Fan (2002) emphasises the point that having a guanxi base does not directly lead to the production of guanxi in practice, and that a base is just a foundation for which guanxi can be established. While it is acknowledged that family and familial guanxi remain important to a degree in modern day China, it is argued that due to advancements of mass education, changing family structures, and greater social and economic freedom, the relevance of these bases of guanxi have stemmed somewhat (Fan, 2002). Furthermore, Bedford (2011) highlights issues with viewing guanxi in terms of guanxi bases, suggesting that it does not account for the complexities and practicalities of modern Chinese business. It is argued that modern day guanxi stems from a much wider array of sources and from more complex foundations and motives (Bedford, 2011). This is especially so, given the effects of globalisation and the occurrence of more complex business structures. Traditionally Chinese businesses were owned and controlled within a family network, and while this remains prominent, it has however been lessened due to market reforms and a shift towards more Western ownership models (Kiong & Kee, 1998). Therefore due to a changing economic and social landscape, it would be more relevant to categorise guanxi based on the nature and purpose of interactions, which is better suited to business research (Fan, 2002). Hwang (1997-8) classifies guanxi into expressive, instrumental and mixed types of interaction. Expressive also known as socio affective relates to family and family like relationships in which interactions are based on exchange needs of providing feelings of satisfaction. Instrumental refers to transactional needs, such as resource exchanges between buyers and sellers for material gain. Mixed includes elements of both; exchanges involving affection and material benefits (X.P. Chen & Chen, 2004). It is argued that this classification based on the purpose of interaction is much more applicable, particularly on a business to business level where guanxi most commonly stems from a transactional foundation such as product quality, or resource access (Z. Chen, Huang, & Sternquist, 2011). This is particularly so given such highly internationalised markets where competition is fierce (Chung, 1999). As such, a suggestion can be made that as a Westerner, transactional benefits and material gain are far more important factors when building guanxi in an individual or business relationship, rather than the existence of deep affection or a special bond (Bedford, 2011).

Gaining and Maintaining Guanxi

There is significant volume of literature emphasising the benefits and importance of gaining and maintaining guanxi as a Western firm (Wong & Chan, 1999). It is presented that competitive advantages can be achieved if Western companies are willing to expend time, energy and money cultivating guanxi (Tsang, 1998). It is proposed that as an outsider, firms must take a proactive approach and take the lead in making initial commitments with Chinese counterparts (Bedford, 2011). The example of US President, Richard Nixon, and his strategy of building US-China relations in the 1970s is highlighted as model approach for establishing and developing a level of guanxi when entering China as a Westerner. It is put forward that him taking the initiative, having a culturally sensitive approach, and spending time nurturing guanxi with government officials throughout a series of visits, paved the way for close US-China economic ties (Su & Littlefield, 2001). As such it is suggested that Westerners must be culturally aware when building guanxi and appreciate that building guanxi is a lengthy process (Fu & Dess, 2006). However given a more globally competitive and dynamic business environment, the offering of instant economic benefit can more effective in developing guanxi than a drawn out nurturing approach (Braendle, Gasser, & Noll, 2005). X.P. Chen & Chen (2004) proposes a three stage model in the process of gaining guanxi: *initiating*, *building and maintaining*, and *using*.

Initiating guanxi as a Western business can be seen as difficult process since no known base exists (Chung, 1999). However, this is more of a traditional view and X.P. Chen & Chen (2004) propose the idea of anticipatory bases which relates to parties having shared goals and the expectation of future exchange. Therefore individuals need not a guanxi base or common identification, but simply an alignment of intentions (Bedford, 2011). Therefore this forms a key channel for a Western business to gain guanxi. In offering an economic benefit or social favour to a Chinese counterpart, guanxi can be initiated (Wong & Chan, 1999). While this approach may not establish a high level of trust and credibility, it will assist Westerners in integrating into Chinese networks in moving from an outsider to an insider position (Tsang, 1998). Additionally to overcome cultural barriers and to access Chinese networks more easily, intermediaries can play an important role. Using an intermediary with high level access and a credible reputation, and hence a level of face, can assist in making connections. A middle party can assist in establishing an initial level of trust and form a common identification for which the future relationship can develop (Su & Littlefield, 2001). This would be particularly beneficial since many Chinese people view foreigners as so far removed from Chinese culture, that they have no reason to trust them. Moreover the use of an intermediary, as a translator can be viewed as being a critical factor for Westerners to overcome language barriers (Hutchings & Murray, 2002).

Building and maintaining guanxi requires a strong understanding of mianzi, and renqing (Buckley & Tan, 2006). Mianzi is an intangible form of social currency in which a manager can develop one's own face and reputation by providing and protecting the face of others (Park & Luo, 2001). Renqing, the act of repeated exchange of favours is a philosophy that allows relationships to grow through long term commitment to mutual obligations (Hwang, 1997-8). Duo (2005) describes renqing as running deeper in which once mutual interests within a relationship are established, there can become a level of long term affection involving secret sharing and emotional intimacy. This would run far deeper than just simply reciprocating favours of gift giving and banqueting (Duo, 2005). However it can be argued that there may always be transactional needs at the heart of any relationship. As such, renqing would provide leverage within this relationship since reciprocity of favours is the key element (Park & Luo, 2001). Furthermore, by not returning favours within a relationship there would be a complete breakdown of trust and credibility and likely bring an end to the relationship (Park & Luo, 2001). Gift giving can form an important element in reinforcing friendship, trust and respect in China (Su, Sirgy, & Littlefield, 2003). From a study by D'Souza (2003), findings highlight that gift giving is a highly beneficial tool in forging long lasting relationships as a Westerner. However many Western managers who have conducted business in China have felt uneasy about the appropriateness of gift giving in business situations, because of its Western associations with corruption and bribery (Su and Littlefield, 2001). While gift giving is common place in China, and in many circumstances, an obligatory sign of respect, it does however create an ethical dilemma between guanxi and corruption (So & Walker, 2006).

Using guanxi can allow Western business managers to experience many benefits of being an insider (Tsang, 1998). The benefits of having a special relationship can be limitless depending on the level of affection between parties. It is proposed that guanxi is fundamentally an accessing strategy in which a party would use social connections to acquire something beneficial (Chang, 2011). Typical business benefits can consist of access to resources, markets, information and high profile officials (Park & Luo, 2001). It is argued that using guanxi as an access tool is prevalent in China due to restrictions on resources imposed by government (Chang, 2011). A study by Hutchings & Murray (2002b) of Australian expatriates working in China stipulate factors which will determine the level of access to benefits of guanxi. Most notably they highlight the size of the organisation as a very important factors when considering the level of guanxi and the ability to use it. Studies highlight that major Multinational Corporations can gain a sense of having automatic guanxi, given their reputation and international influence. This is increasingly important given a continued rapid pace in which China is opening up and integrating into world markets (Hutchings & Murray, 2002b).

Importance of Guanxi

There is divided opinion as to whether the future importance and relevance of guanxi in 21st century China is increasing or decreasing (Chang, 2011). There appears to be two main perspectives as to the future role of guanxi: The first is that guanxi is so culturally embedded in society that it will always play an overwhelming part in Chinese business. Conversely there is an opposite view put forward that due to the influence of globalisation, greater economic and social freedom and institutional reform, guanxi is already becoming less important (Z.Chen, Huang, & Sternquist). An alternative view is also presented as to the role and importance of guanxi. It is proposed that guanxi is not worth the time and financial investment it requires, and that it can be a counterproductive asset. (Buckley & Tan, 2006)

Guanxi and Culture

There is consensus among many scholars that guanxi will continue to be highly important, despite radical economic and social changes (Guo & Miller, 2010). There is an idea presented by Braendle, Gasser, & Noll (2005) that a successful business man in the West is described as "wealthy" whereas in China he is "well connected". Therefore it is suggested that guanxi will thrive even more in an opened up market environment, with success being so heavily reliant on effective networking and business interconnectedness (Duo, 2005). Furthermore, China has a culture high in uncertainty avoidance (Hofstede, 1994). It is argued that China has never experienced such uncertain times, and given such a rapid pace of economic reform, guanxi will be an even more essential factor for managing this uncertain transition (Park & Luo, 2001). This is in spite of more legitimate public channels opening up, with the Chinese government increasingly tightening economic regulations and implementing more formalized legal structures (Wong & Chan, 1999).

Guo & Miller (2010) put forward the idea that in the West, abiding by the rules and regulations takes precedence, whilst in China personal loyalty take priority over the rule of law. China is strictly controlled as a one party state. Although it has modernised in recent times, China has been developed on a Communist rule of law, based on Marxist theory that law is an invasive tool of capitalists against working people. This foundation has had a profound influence on guanxi taking precedence over the rule of law (Wong & Chan 1999). Although the Chinese government has slowly acknowledged that a more robust legal infrastructure needs to be adopted for modern times, the Chinese legal system is very much in transitional stages in establishing institutional structure, property rights and legal stability (Wong & Chan, 1999). Therefore greater dependence on personal relationship and trust will continue to be prominent, unlike in the West, were there is far greater trust in legal systems (Yuan, Kim, Dai, & Arnulf, 2013). Furthermore Braendle, Gasser, & Noll (2005) highlight that a strong social system will always override a weak legal system, which therefore encourages the widespread use of guanxi. This idea is supported by research conducted by Chu & Ju (1993) who found that over 70% of Chinese people would rather use their guanxi networks over bureaucratic legitimate methods to further their business ambitions (Wood, Whitely, & Zhang, 2001). This embraces guanxi as unwritten law in China and as the "glue that holds Chinese business life together" (Braendle, Gasser, & Noll, 2005). Therefore it is argued that guanxi as central to daily business life will continue to be highly important irrespective of economic or political overhauls because it is such an "institutionally defined system" (Chang, 2011).

Guanxi and Globalisation

It is argued that no matter how culturally rooted a concept such as guanxi is, it will be influenced by changing social and economic circumstances (Hutchings and Murray, 2002a). Globalisation has led to more universal business practices being adopted in China. This has been the result of an open door policy to FDI over the past three decades and has meant that some of China's traditional business practices have been curtailed (Anderson & Lee, 2008). This can be seen to be a direct result of increasing Western influence and decreasing numbers of Chinese State Owned Enterprises (SOEs). Power is now distrusted more evenly between state and private entrepreneurs (Chang, 2011). The pre-market reform era consisted largely of SOEs with little room for private enterprise. SOEs, were strictly controlled by central government and operated within highly bureaucratic systems with many layers of control (Ralston et al, 2006). Due to these rigid hierarchical structures, guanxi operated in a strictly upward accessing form. However due to major economic changes, lateral accessing of guanxi is now common place, and Chinese business people can access a full array of business networks. These institutional changes have allowed private business people greater access and greater freedom to seek different business partners. This has resulted in more interaction with foreign business practices changing the rules of the game of guanxi (Chang, 2011).

A use and importance study of guanxi by Anderson & Lee (2008) highlights the changing perception of the role of guanxi. Findings showed that both Chinese and Hong Kong business managers viewed guanxi as being a less important factor in business success than in the 1980s when China first opened up, with 91% of Chinese respondents and 94% of Hong Kong respondents taking this view. The reasons regarded for this were increasing Western presence, further market completion and greater formalisation of rules and regulations (Anderson & Lee, 2008). Furthermore, Western firms are continuing to improve their understanding of the Chinese business environment and are relying less on the need for guanxi. Ultimately it will be the high quality products and business practices of firms entering China and not guanxi that will determine the level of success (Fan, 2002).

Anderson & Lee (2008) provide evidence that support the view that guanxi is irrelevant given high quality business practices. From their research they asked Chinese and Hong Kong business managers to respond to whether they felt guanxi was relevant given high quality or unique products. The results were unanimous in both China and Hong Kong with 82% of Chinese respondents and 95% of Hong Kong respondents perceiving that guanxi had little impact. It was accepted that guanxi had obvious ability to provide assistance, but the core source of competitive advantage was the product itself. Thus highlighting that while guanxi has obvious advantages as an accessing strategy, it certainly does not guarantee market entry and success (Anderson & Lee, 2008). It is presented that firms are wiser to focus on effective business practices as opposed to guanxi which offers little strategic value when resources of a company are weak (Fan, 2002). Additionally a guanxi relationship can be easily overridden by a competitor who offers superiors financial incentives or product offerings (Chang, 2011).

Guanxi as a Counterproductive Asset

Regardless of the historical or potential future importance of guanxi, there are scholars who view guanxi as a counterproductive means of doing business. It is proposed that while guanxi can have obvious access advantages, it can ultimately prove to be a disadvantageous asset in the long term (Buckley & Tan, 2006). It is argued that businesses can be overly concerned with gaining guanxi with more important issues being overlooked such as product quality or managerial competence (Anderson & Lee, 2008). In some cases guanxi has in fact become a major burden, since dependence on maintaining guanxi can come at significant financial and time cost. Regular gift giving and banqueting can be expensive and committing to providing favours can be time consuming and a major distraction to core activities (Buckley & Tan, 2006). Moreover, in certain circumstances companies can be locked into guanxi networks and are now looking to reverse that process; a concept known as guanxi evasion. Company's committing to long term building of guanxi can find themselves in a risky position if they no longer gain benefit with a party, and as such, they will look to get out of that relationship (Fan, 2002). Worse still, becoming too close to a party that subsequently experiences a loss of face within society or engages in illegal activity, could lead to serious consequences. A whole network of connections could be suddenly destroyed if a closely associated official was disgraced by a corruption scandal. Furthermore since it is argued that guanxi can be perceived to push ethical boundaries, a corruption scandal arising all of a sudden would not be considered unusual (Su & Littlefield, 2001).

Conclusion

Due to major market reform in China, the concept of guanxi has experienced significant change and will continue to do so as the economy opens up further (Fan, 2002). It is presented that due to state structural changes, increasing Western influence and market competitiveness that the importance of guanxi is diminishing and must be viewed in a new way (C.C. Chen, Chen, & Huang, 2013). Chang (2011) highlights that there are really two types of guanxi. There is a deep form of guanxi which relates to special relationships amongst family, friend and business networks of which a level of affection and long term commitment to favours is displayed. This is viewed as a very traditional form of guanxi which does not wholly consider the complexities and dynamic environment of competitive business (Fan, 2002). Secondly there is a type of guanxi which is not emotional and not as committed as the deep form. It relates to parties having shared understanding, knowing each other as acquaintances and creating mutual gains through transactional means. This is far more relevant to business in 21st century China, with transactional needs forming the foundation of an interaction between two business parties and the need for creating a special relationship would be an issue of only secondary importance. Therefore the role of guanxi should be used as a complementary factor rather than the decisive element in conducting business in China. Though it is accepted that guanxi is deeply engrained in the psyche of Chinese business people and has played a pivotal role in business dealings in the past (Guo & Miller, 2010). It is argued that like most cultural fundamentals, the importance of guanxi will face pressure in the wake of major institutional reform. Social, economic, political and legal overhauls as a result of China's open door policy and the increasing Westernisation of Chinese society will continue to change business practices, and hence the role of guanxi. (Anderson & Lee, 2008).

References

Anderson, A. R., & Lee, E. Y.C. (2008). From tradition to modern: Attitudes and applications of guanxi in Chinese entrepreneurship. *Journal of Small Business and Enterprise Development, 15*(4), 775-787.

Bedford, O. (2011). *Guanxi*-Building in the Workplace: A Dynamic Process Model of Working and Backdoor *Guanxi*. *Journal of Business Ethics, 104*(1), 149-158.

Braendle, U. C., Gasser, T., & Noll, J. (2005). Corporate Governance in China - Is Economic Growth Potential Hindered by Guanxi? *Business and Society Review, 110*(4), 389-405.

Buckley, P. J., Clegg, J., & Tan, H. (2006). Cultural awareness in knowledge transfer to China—The role of guanxi and mianzi. *Journal of World Business, 41*(3), 275-288.

Buttery, E. A., & Wong, Y. H. (1999). The development of a *Guanxi* framework. *Marketing Intelligence and Planning, 17*(3), 147-154.

Chang, K.C. (2011). A Path to Understanding Guanxi in China's Transitional Economy: Variations on Network Behavior. *Sociological Theory, 29*(4), 316-339.

Chen, C. C., Chen, X.P., & Huang, S. (2013). Chinese Guanxi: An Integrative Review and New Directions for Future Research *Management and Organization Review, 9*(1), 167-207.

Chen, N. Y., & Tjosvold, D. (2007). Guanxi and leader member relationships between American managers and Chinese employees: Open-minded dialogue as mediator. *Asia Pacific Journal of Management, 24*(2), 171-189.

Chen, X. P., & Chen, C. C. (2004). On the Intricacies of the Chinese Guanxi: A Process Model of Gaunxi Development *Asia Pacific Journal of Management, 21*, 304-324.

Chen, Z., Huang, Y., & Sternquist, B. (2011). Guanxi practice and Chinese buyer–supplier relationships: The buyer's perspective. *Industrial Marketing Management, 40*(4), 569-580.

Chung. Y.K. (1999). *Guanxi Logic and the Chinese Business Practices (1-34)*: University of Washington, USA.

D'Souza, C. (2003). An Inference of Gift-Giving Within Asian Business Culture. *Asia Pacific Journal of Marketing and Logistics, 15*(1), 27-38.

Duo, L. (2005). Guanxi and its Influence on Chinese Business Practices. *Harvard China Review, 5*(2), 81-84.

Fan, Y. (2002). Questioning guanxi: definition, classification and implications. *International Business Review*, 543-561.

Fu, P. P., & Dess, T. (2006). The Dynamics of Guanxi in Chinese High-tech Firms: Implications for Knowledge Management and Decision Making *Management International Review, 46*(3), 277-305.

Gold, T. B. (1985). After Comradeship: Personal Relations in China Since the Cultural Revolution. *The China Quarterly, 104*, 657-675.

Guo, C., & Miller, J. K. (2010). Guanxi Dynamics and Entrepreneurial Firm Creation and Development in China. *Management and Organization Review, 6*(2), 267-291.

Hofstede, G. (1994). The Business of International Business is Culture *International Business Review, 3*(1), 1-14.

Hutchings, K., & Murray, G. (2002a). Australian Expatriates' Experiences in Working Behind the Bamboo Curtain: An Examination of guanxi in Post-communist China. *Asian Business & Management, 1*(3), 373-393.

Hutchings, K., & Murray, G. (2002b). Working with *Guanxi* : An Assessment of the Implications of Globalisation on Business Networking in China. *Journal of Creativity and Innovation Management, 11*(3), 184-191.

Hwang, K. K. (1997-8). Guanxi and Mientze: Conflict Resolution in Chinese Society *Intercultural Communication Studies, 2*(1), 17-39.

Kiong, T. C., & Kee, Y. P. (1998). Guanxi bases, Xinyong and Chinese Business networks *The British Journal of Sociology, 49*(1), 75-96.

Luo, Y. (2000). *How to enter China.* University of Michigan, USA: The University of Michigan Press.

Osland, G. E. (2007). Doing Business in China: A Framework for Cross-cultural Understanding *Marketing Intelligence & Planning, 4*(4), 4-14.

Park, S. H., & Luo, Y. (2001). Guanxi and Organizational Dynamic: Organizational Networking in Chinese Firms. *Strategic Management Journal, 22*, 455-477.

Ralston et al, D. A. (2006). Today's State-Owned Enterprises of China: are they Dying Dinosaurs or Dynamic Dynamos? *Strategic Management Journal, 27*(9), 825-843.

So, Y.L., & Walker, A. (2006). *Explaining Guanxi: the Chinese business network*. New York, USA: Routledge

Su, C., & Littlefield, J. E. (2001). Entering Guanxi - A Business Ethical Dilemma in Mainland China? *Journal of Business Ethics, 33*, 199-210.

Su, C., Sirgy, J. M., & Littlefield, J. E. (2003). Is Guanxi Orientation Bad, Ethically Speaking? A Study of Chinese Enterprises. *Journal of Business Ethics, 44*, 303-312.

Tsang, E. W. K. (1998). Can guanxi be a source of sustained competitive advantage for doing business in China? . *The Academy of Management Executive, 12*(2), 64-73.

Wong, Y. H., & Chan, R. Y.-k. (1999). Relationship Marketing in China: Guanxi, Favouritism and Adaptation. *Journal of Business Ethics, 22*, 107-118.

Wood, E., Whiteley, A., & Zhang, S. (2001). The cross model of guanxi usage in Chinese leadership. *Journal of Management Development, 21*(4), 263-271.

Yuan, X., Kim, S., Dai, W., & Arnulf, J. K. (2013). How FIEs may sustain competitive advantage in China - Adapting marketing strategy by the use of Guanxi. *Baltic Journal of Management, 9*(1), 22-46.