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**In Search of Strategic Assets through Cross-Border Merger and Acquisitions:
Evidence from Chinese Multinational Enterprises in Developed Economies**

Abstract

Drawing on multiple cases of cross-border merger and acquisitions (CBMAs) by Chinese multinational enterprises (CMNEs), we investigate their search of strategic assets in developed economies (DEs). It is a received view that CMNEs use CBMAs to access strategic assets in DEs so as to address their latecomer disadvantages and competitive weakness. This paper aims to identify the nature of strategic assets that sought after by CMNEs and the post-CBMA integration approach, a partnering approach, adopted in enabling access to these assets. The findings reveal that CMNEs possess firm-specific assets that give them competitive advantages at home and seek for complementary strategic assets in the similar domain, but at a more advanced level. The partnering approach helps securing these strategic assets through no or limited integration, giving autonomy to target firm management team, retaining talents and creating synergy.

Keywords: CBMAs, Chinese Multinational Enterprises, Strategic Assets, Partnering Approach

1. Introduction

The recent decades have witnessed a significant rise of cross-border merger and acquisitions (CBMAs) by Chinese multinational enterprises (CMNEs). Between 2000 and 2010, China increased its number of completed CBMA transactions from 36 to 146 (Edamura, Haneda, Inui, Tan & Todo, 2014; Nicholson & Salaber, 2013). Among these CBMAs, most are in OECD countries with US occupying the leading position (35 deals in 2010), followed by Australia (20), UK (16), Japan (9) and Canada (8), and the major target industries are high-tech industries such as the machinery and information technology (Edamura et al., 2014). While multinational enterprises (MNEs) from developed economies (DEs) often venture abroad to leverage their existing firm-specific assets (FSAs), the extant literature emphasises that CMNEs employ CBMAs to acquire DE firms to seek strategic assets so as to overcome latecomer disadvantages and address competitive weakness in international markets (e.g. Agyenim, Wang & Yang, 2008; Cui, Meyer & Hu, 2014; Deng, 2004, 2007, 2009; Liu & Woywode, 2013; Luo & Tung, 2007; Nicholson & Salaber, 2013).

Strategic assets are firm-specific resources and capabilities that are difficult to trade and imitate, scarce, appropriable and specialised (Amit & Schoemaker, 1993). According to the resource-based view (RBV), strategic assets give firms competitive advantages over rivals and afford them the accrual of superior performance (Barney, 1991). Existing research on strategic asset-seeking CMNEs tends to focus on

antecedents and processes. The antecedents are linked to the institutional characteristics of China¹ (Deng, 2009; Lu, Liu & Wang, 2011), industry R&D intensity, firms' technology-based competitive advantages (Lu et al., 2011), firms' exposure to foreign competition, governance structure and financial and managerial capabilities (Cui et al., 2014). As for the internationalisation process, there are two main perspectives. Mathews (2006) suggests the use of linkage, leverage and learning (LLL) process with the explicit goal of gaining strategic assets not available at home, while Luo and Tung (2007) argue for a process of springboarding with systematic, recursive and revolving features for achieving dual strategic intents of seeking for strategic assets and avoiding institutional and market constraints at home. Despite these contributions, there are few studies that systematically examine how CMNEs search for strategic assets. The purpose of this paper is to study two aspects of this broad research question. First, what strategic assets do CMNEs try to secure through CBMAs in DEs? How or in what way are their FSAs prior to CBMAs linked to strategic assets that are acquired through CBMAs? Second, as an emerging post-CBMA integration approach, the partnering approach, how does it serve CMNE's strategic asset-seeking motive? We present a couple of propositions to explain the nature and management of strategic assets through investigating multiple cases of CMNE's CBMAs in DEs.

¹ The institutional characteristics of China can be observed at both the national and the organisational level (Deng, 2009). The former refers to government interventions in business activities including both positive support and negative constraints to motivate CMNEs undertake CBMAs, and under-developed institutions, e.g. market imperfection residuals stemming from a central planning economy era and underdeveloped infrastructure. The latter concerns the prevailing corporate values and norms attuning to institutional pressures and inward foreign direct investment as stimulus to CBMAs.

Existing research tends to treat strategic assets as an abstract concept that is argued to include a wide range of resources and capabilities with many examples given, e.g. technology, R&D, human capital, brand names, buy-supplier relationships and management capabilities (Lu et al., 2011; Luo & Tung, 2007; Stucchi, 2012). The list goes on, but there is little research that explores the nature of strategic assets that CMNEs acquire through CBMAs in DEs and how these assets are linked to these firms' prior FSAs. Nicholson and Salaber (2013) speculate that firms of different country-of-origin may seek different strategic assets depending on their prior FSAs. Chinese firms enjoy competitive advantages in the manufacturing industry but Chinese managers lack fluent communication skills, cross-cultural knowledge and international experience of CBMAs and face language barriers. As a result, they are more interested in acquiring superior managerial skills. However, this speculation lacks empirical grounding.

Though CBMAs offer a means for accessing strategic assets, their success depends on an appropriate post-CBMA integration approach. CMNEs face various challenges in managing CBMAs. For example, they encounter challenges associated with their country-of-origin (i.e. liability of country-of-origin) (Chang, Mellahi & Wilkinson, 2009), e.g. institutional weakness and lack of global dominance of the home country; challenges associated with host DEs, including sceptical regulators, unions and other stakeholders; challenges associated with home and host country differences,

especially national cultural distance. In addition to the challenges at the country level, CMNEs also face challenges at the firm level, e.g. the lack of experience in managing CBMAs and particularly in dealing with different organisational cultures that are embedded in different national cultures. Responding these challenges, CMNEs may choose different strategic approaches in managing post-CBMA activities. Traditionally, established MNEs often take a power or efficiency perspective to partially or fully integrate the business they have bought overseas in order to take control of new acquisitions and rationalise and restructure operations (Child, Falkner & Pitkethly, 2001; Pablo, 1994). However, the traditional approach could be 'counterproductive' for CMNEs (Madhok & Keyhani, 2012) as it may destroy everything that they seek to gain through CBMAs, e.g. losing the identity of target firms, undermining their capabilities by disrupting routines and processes or even losing key talents whose knowledge is important to retain (Kale, Singh & Raman, 2009; Madhok & Keyhani, 2012). Therefore, CMNEs need an alternative approach for post-CBMA integration. It is observed that emerging economy MNEs (EMNEs), particularly Asian MNEs, have taken a partnering approach, a strategic approach that keeps an acquisition structurally separate but with coordination in business activities that help create synergy (Kale et al., 2009). This approach gives the newly acquired firms autonomy, reduces the unintended consequences and minimises the complexity of partial and full integration, and helps the acquired firms retain key personnel and maintain original identities of target firms. Kale et al. (2009) indicate that the partnering approach has generated value for Indian firms, and their acquired firms in

the US and Europe were satisfied to work with the Indian parent companies. However, we know little about the validity of the partnering approach for strategic seeking CMNEs.

This paper seeks to advance our knowledge on strategic asset-seeking CMNEs and make the following contributions. First, it provides new insights into CMNE's internationalisation. While the strategic-seeking motives of CMNEs are widely accepted and the extant research has examined the antecedents and processes of these CMNEs, a gap remains in understanding CMNEs' search of strategic assets and the implication for theoretical extension and empirical investigation. Through unbundling the abstract concept – strategic assets, investigating what strategic assets are sought after by CMNEs and how they are linked to their prior FSAs and validating the applicability of the partnering approach for CMNEs in securing strategic assets, this paper furthers the understanding of CMNEs' strategic actions and offers propositions. Second, the findings help focus managerial attentions on resource deployment and knowledge management. Firms have limited resources, by concentrating on utilising and developing relevant resources and capabilities for strategic assets transfer, absorption and development, their competitive advantages can be further enhanced.

This paper is organised as follows. The next section discusses the theoretical background. Section three introduces our research design and is followed by case evidence and discussions in Section four. The last section concludes with implications

and limitations.

2. Theoretical Background

What makes the CBMA activities of CMNEs in DEs different from established MNEs is that these CBMAs are of strategic imperative in acquiring strategic assets so as to help CMNEs become competitive at a global scale. In addition, these CMNEs face significant challenges not only in terms of institutional differences between home and host countries and organisational cultural differences, but also liability of foreignness, liability of country-of-origin and liability of emergingness (Madhok and Keyhani, 2012). This section begins with a review of the relevant literature on the strategic-asset seeking CMNEs from which two sets of research questions are developed in relation to the nature and management of strategic assets that CMNEs sought after through CBMAs in DEs.

2.1 Strategic Asset-seeking through CBMAs

Strategic assets are defined as “the set of difficult to trade, imitate, scarce, appropriable and specialized resources and capabilities that bestow the firms competitive advantage” (Amit & Schoemaker, 1993, p. 36). Strategic assets should have stable and long-lasting nature that enable firms to implement their strategy and provide them with a source of steady stream of rents (Barney, 1991). While existing research has a

general agreement over the characteristics of strategic assets, they tend to treat strategic assets as an abstract concept and the operationalization of strategic assets is through identification and selection of a wide range of unique, intangible and organisationally embedded resources and capabilities that include managerial resources, knowledge-based resources, organisational capabilities and relational resources (Beleska-Spasova, Glaister & Stride, 2012). Strategic assets are those resources and capabilities that give firms competitive advantages. The management therefore must invest in strategic assets. Strategic assets can be acquired through internal development, e.g. R&D, cumulative experience and “learning by doing”, or external procurement, e.g. international licensing, strategic alliances and CBMAs. Increasing global competition and unabated technological advancement has resulted in firms looking beyond their home market for access to strategic assets that cannot be internally produced or acquired through experience in a timely and cost-effective fashion.

There are a number of reasons why CBMAs are a preferred mode of accessing external strategic assets. CBMAs are viewed as “the fastest means of reaching the desired goals when expanding internationally” (Agyenim et al., 2008). It provides acquirers access to multiple capabilities, such as gaining and controlling technological resources and management know-how, which firms may not be able to reach without the formal governance structure. It promotes organisational learning by acquiring, integrating, sharing and applying critical knowledge. Because firm-specific strategic

assets are likely to be subject to market failure, CBMAs also help firms overcome transaction costs.

CMNEs start from a 'resource-meagre' position as they do not own strong technological resources, advanced management and marketing techniques and established globally-recognised brands (Wang, Hong, Kafouros & Boateng, 2012). The current success of CMNEs at the international level is often explained as the results of country-based resources (or country-specific resources, CSRs) derived from e.g. monopolistic access to natural resources, government support and subsidies and low cost production inputs (Rugman & Li, 2007). Such undifferentiated firm-specific strengths may be domestically and internationally temporarily viable, but cannot offer CMNEs sustainable competitive advantages. Operating in an increasingly globalised and ever-changing context, CMNEs need strategic assets that are not readily available in the home market for long-term success at the international stage.

Though the asset-seeking motives of CMNEs' CBMAs in DEs have been acknowledged in the literature (Agyenim et al., 2008; Child & Rodrigues, 2005; Deng, 2004; Rugman & Li, 2007; Rui & Yip, 2008), what is less understood is the nature of strategic assets sought after by CMNEs in DEs. Traditional research on the potential of merger and acquisitions (M&As) focuses on the relatedness in terms of similarity which refers to the extent to which firms have a high degree of overlapping assets (Kusewitt, 1985; Singh & Montgomery, 1987). Through M&As, assets similarity can

help firms achieve synergy through economies of scope, economies of scale or increased market power. Assets similarity is also relevant from the perspective of absorptive capacity and organisational learning. Absorptive capacity refers to a firm's ability to recognise the value of new information/knowledge, assimilate it and apply it to commercial ends (Cohen & Levinthal, 1990). How well an acquirer is able to take advantage of strategic assets in a target firm depends on the former's absorptive capacity, which, ultimately is a function of their prior related knowledge. Thus, absorptive capacity tends to develop cumulatively, has the path-dependent nature and builds on firms' existing knowledge base (Cohen & Levinthal, 1990). Each firm has its own FSAs embedded in organisational routines and processes. As recognised by Zahra and George (2002) in their reconceptualization of the construct of absorptive capacity, it is through these routines and processes that firms acquire, assimilate, transform and exploit knowledge to produce a new set of strategic assets. Put it differently, firms with a higher level of absorptive capacity that are based on existing FSAs are better positioned in knowledge creation and have a better chance of developing and applying acquired strategic assets than those with a lower level of absorptive capacity (Deng, 2010). Assets similarity, thus knowledge in similar fields, ensures that the acquirer has the appropriate level of absorptive capacity to recognise, value and learn to use strategic assets of the target firm. Without adequate absorptive capacity, the acquirer has no ability to exploit the strategic assets.

On the other hand, Harrison, Hitt, Hoskisson and Ireland (2001) argue for more

pronounced synergistic benefits from asset complementarity, not similarity, while complementarity refers to the degree to which firms can provide distinctive but mutually supportive assets that are lacked by each other. They contend asset combinations are more likely to be private or uniquely valuable when based on complementarity rather than similarity. The complementarity can take place in different ways, spanning from different functions to different parts of the value chain. Thus, high-value front-end assets available in DEs combined with the back-end low-cost assets in emerging economies (EEs) in general, and China in particular, are expected to create valuable asset combinations. Zaheer, Castañer and Souder (2013) argue that relatedness has two dimensions, i.e. both similarity and complementarity, and economic synergies in M&As stem from both dimensions of relatedness between firms.

In the case of CMNEs, Lu et al. (2011, p. 227) posit that they should “possess related technology capabilities that are advanced enough to absorb superior technologies in the host countries” and find that Chinese firms who have domestically-developed technology-based competitive advantage are more likely to expand overseas. On the other hand, implicitly based on resource complementarity argument, Nicholson and Salaber (2013) maintain that, since Chinese firms have comparative advantages in manufacturing-orientated industries, their foreign acquisitions often aim at acquiring superior managerial and marketing skills to improve their position in manufactured products, and to develop China from the ‘Workshop of the World’ into the dominant

global supplier of manufactured goods. So what strategic assets are sought after by CMNEs through CBMAs in DEs? How are they linked to firms' FSAs that they possess before undertaking CBMAs? To what extent is there asset similarity or complementarity between ex ante FSAs possessed by the acquired and target firms? One of our research objectives is to answer these questions.

2.2 A Partnering Approach as the Post-CBMA Integration Strategy

The success of accessing strategic assets by acquirers depends on the post-CBMA integration strategy that represents the extent to which the acquirers consolidate the functional activities of the target firms (Child et al. 2001). Broadly speaking, existing literature suggests three different strategic approaches: absorption, symbiosis and preservation based on two dimensions: structural integration and degree of coordination (Haspeslagh & Jemison, 1991). The absorption approach refers to structural integration for high coordination, i.e. assimilating/consolidating the target firm into the acquirer's operation and to minimising the autonomy of the target firm. The symbiosis approach indicates a moderate level of integration, where the acquiring and the target firm are strategically interdependent and the target firm maintains operational autonomy. The preservation approach represents a low level of integration between the acquiring and the target firm. Thus, there is a low requirement of strategic interdependence or structural integration and a low degree of coordination between the parties. Existing research on post-CBMA integration is predominantly

about DMNEs who often aim for rapid integration and a maximum synergetic effect, thus go with a partial or full structural integration approach, i.e. absorption strategy (Bhabra & Huang, 2013). However, there are two issues. First, it has been widely reported that a majority of CBMAs are unsuccessful (Shimizu, Hitt, Vaidyanath & Pisano, 2004) and this suggests “a sizable discrepancy between the promising expectations motivating acquisitions and the apparent difficulty in realizing their value” (Zaheer, Castañer & Souder, 2013, p. 605). Second, given the challenges faced by EMNEs in general and CMNEs in particular as mentioned above, they may look for an alternative integration strategy that accommodates the socially constructed system of rules, norms and cognitive frames of the host country institutions in order to facilitate the access to and the transfer of strategic assets back home. The strategy should equally serve the purpose of helping CMNEs earn legitimacy in order to ensure the survival and success in the host country context.

Recent studies show that strategic-asset seeking firms from EEs in general and Asia in particular are not taking the traditional structural integration approach. For example, Cogman and Tan (2010) conduct in-depth case studies of 120 acquisitions (a representative sample of Asian acquirers by deal size and country of origin) during 2004 to 2008 and estimate that about half of the Asian deals have not followed the traditional post-merger management model, over a third of the Asian deals only involved limited functional integration, such as in the procurement sector and an additional ten per cent attempted no function integration at all. Liu and Woywode

(2013) show that CMNE's CBMAs in Germany adopt a so-called "light-touch" integration approach, an approach termed as a "partnering approach" in Kale and Singh (2009) and Kale et al. (2009). A partnering approach refers to such cases as the acquirer and the target firm remain structurally separated with the target firm organisation and identity left intact, but achieves synergies through the selective coordination of business activities. It can be positioned between symbiosis and preservation strategies and has several characteristics that differentiate it from other approaches.

First, unlike absorption and symbiosis approach, the acquirers do not integrate the target firms to a significant extent. Madhok and Keyhani (2012) argue that the partnering approach can be seen "as a genuine collaborative partnership rather than an imposition of hunter upon hunted". Thus, the partnering approach allows acquisitions to remain separate, to operate as stand-alone businesses, and to give the target firm management almost complete operational freedom even in the same or related businesses. The rationales are (1) to reduce unintended consequences of structural integration, to minimise complexity and to avoid the mistakes that originate from having too many layers of takeovers, which may disrupt the routines and operations in both organisations and cause employees' dissatisfaction; (2) to retain and maintain foreign acquisitions' own identities (e.g. brands). CMNEs have a limited understanding and experience of CBMAs given their relative short history of internationalisation. They rely on the target firm's willingness to collaborate in order

to realise the potential value of CBMAs. Any wrong decision may have a negative effect. A case in point is China's TCL's acquisition of French consumer electronics giant – Thomson's TV and DVD operations in 2004. As a young player in the international market, TCL had limited international management experience and a limited understanding of cross-cultural and cross-functional issues, and also failed to recognise the hidden costs that may hinder the integration. The integration “did not work well with people from different cultures, with different experiences and with different routines” (Deng, 2010, p. 520), thus leading to misunderstandings between the acquirer and the target firm and many of the French employees quit from their jobs. TCL failed to achieve the expected benefits and finally gave up Thomson's original business model, distribution channels and even the Thomson brand (Deng, 2010).

Second, the partnering approach helps retain senior executives of the target firms by granting them autonomy. This again differs it from partial or full structural integration approaches where the loss of talents is a noticeably challenge (Shimizu et al., 2004). Autonomy refers to the amount of freedom that the target firm's management is given to manage the business without close control by the parent firm. Retaining the management team and granting them autonomy create a positive atmosphere in target firms, sends a positive signal to stakeholders, helps retain industry-and firm-specific knowledge (i.e. expertise), leverage the target firm's human and social capital, reduce post-CBMA uncertainty among customers, suppliers and employees, and motivate top

management team to improve productivity (Kale et al., 2009). Doing the opposite could bear unintentional negative consequences. In addition to the departure of key managers, there could also be operational inefficiencies originating from disrupted routines, and misunderstandings arising from unfamiliarity with the local operating procedures and local market conditions because of the cross-cultural differences (Zaheer et al., 2013). In general, CMNEs lack the expertise and capabilities to manage complex international operations (Peng, 2012). Retaining acquisitions' incumbent management or recruiting from the local market helps with the performance of post-CBMA. For instance, Cogman and Tan (2010) present a case about an acquisition of a European business by a Chinese industrial firm in 2006. Given that there was a good record of active restructuring and producing significant synergies in the sector, the president of the acquiring firm believed that there was no need to assign a Chinese team to manage the acquired foreign firm since he had observed the downsides of the traditional structural integration that had caused many failed Chinese acquisitions. Instead, he retained the top management team in the acquired firm with only very minor changes, and granted autonomy to the top management team to develop its own business plan. The CEO of the target firm continued to serve the same role and be responsible for developing the firm's business strategy which needs input and approval from the new parent firm so as to align the overall business strategy at the group level.

Third, the partnering approach differs from preservation approach in that it involves a

higher degree of coordination. It tries to achieve the synergy benefits through selective high coordination and alignment between the two companies, an approach that is widely adopted in strategic alliances (Kale & Singh, 2009; Kale et al., 2009). Stated differently, CMNEs also look for coordinated, though not fully integrated, business activities that can help create synergy. CMNEs are used to working together with foreign companies via being their suppliers of raw material, intermediate products, own equipment manufacturers, or joint venture partners at home. Cogman and Tan (2010) suggest that EMNEs, through the partnering approach, focus only on a few major sources of synergy rather than trying to align every aspect of their businesses immediately. Furthermore, cooperation between the partnering firms allows knowledge sharing. Madhok and Keyhani (2012) recognise that the target is more willing to make its knowledge readily available, help the EMNEs with the learning process and learn from the EMNEs when being treated as an equal. Such an example can be seen from Tata steel's acquisition of Corus. The knowledge sharing works on both ways, meaning that they learned from each other and applied new ideas to update each other's capabilities. Therefore, the partnering approach strategy is likely to create an environment for cooperation and knowledge sharing (Kale et al., 2009). Given the characteristics of partnering approach, the question arises: How does the partnering approach serve CMNE's strategic asset-seeking motive?

3. Research Design and Methods

In order to analyse the search of strategic assets by CMNEs in DEs through CBMAs, we employ a multiple case study approach. A detailed case study approach is a useful strategy in analysing real life organisations (Robson, 2002) as it can provide a much richer, deeper and broader understanding than a large sample quantitative approach (Eisenhardt & Graebner, 2007; Morris & Wood, 1991). The case study method is particularly appropriate in the context of the current research. First, the history of CMNE's CBMAs in DEs is short. The population size is small and therefore it is not feasible to use the questionnaire survey approach. Second, our research questions make the study exploratory and non-hypothesis driven. As suggested by Birkinshaw, Brannen and Tung (2011), to understand the complexities of emergent and evolving phenomena, it is often inappropriate to engage in large scale, cross-sectional studies or reductionist methods in the absence of well developed theory and case analysis may be more suitable. The multiple case study approach is adopted because it gives opportunities for replication and comparison (Eisenhardt, 1989; Gao & Liu, 2012; Yin, 2014).

As there is no existing database on CMNE's CBMAs in DEs, in order to identify potential cases, we first went through all the Chinese CBMAs in the manufacturing sector in the UK in recent years by reference to journal articles, newspapers and various websites including UK Trade and Investment website because UK is the largest target country for CMNE's CBMAs (Edamura et al., 2014) and two of co-authors are based in the UK. We then expanded our search to Chinese firms'

CBMAs of European firms, with a focus on Germany, France, Italy and Netherlands as, according to Clegg and Voss (2014), these countries, together with the UK, are the main subjects of Chinese takeovers.

To answer our research questions requires people who were in the important positions in their organisations, were involved in the pre-CBMA process and had the knowledge about the management of post-CBMA. This ties in strongly with people's "knowledge, views, understandings, interpretations, experiences and interactions" (Mason, 2002, p.63). We obtained the senior managers' contact information of both the acquirer and the target firms from company websites and then contacted them through email. We attempted to solicit views from the perspectives of both sides of CBMAs in order to gain a comprehensive understanding and avoid the "methodological separatism" issue identified by Yeung (1995). We also used personal contacts and external networks to try to reach potential interviewees. Potential interviewees were explained the aim and scope of our research and asked whether they were involved in CBMAs. After numerous telephones and emails to arrange for telephone or face-to-face interviews, a total of four senior managers in three Chinese parent companies and one foreign target firm finally agreed to participate. The foreign target firm manager confirmed during the interview that they had sound knowledge of the Chinese acquirer firm because of the close relationship built through previous co-operations. Secondary data sources also confirmed the intensive trading relationship between the acquirer and the target firm. Nevertheless, such data

imbalance is a limitation of the current study and does not allow us to effectively undertake “unit triangulation”, i.e. to triangulate the responses from the acquirers with the views of the target firms.

Among the four interviews, three were carried out via telephone and one by email. Though email interviews lack the spontaneity of telephone interviews, it offers flexibility to interviewees as they can choose the convenient time for them to send their responses and as a result, such a method can produce equally rich data (Burns, 2010). In our case, not only the response from the interviewee by email is extensive and detailed. They also sent important documents related to our questions and offered further help and support if needed. Each telephone interview lasted for approximately one hour. The interviewee in the foreign target firm was interviewed in English. The interviewees in China (Chinese parent companies) were interviewed in Mandarin. Under the guarantee of anonymity, all telephone interviews were digitally recorded and transcribed within 24 hours of the interviews to minimize information loss. In line with established qualitative research protocol, interviews were supplemented with observations and secondary data sources such as public documents, media reports, corporate newsletters, company archives and company websites (Yin, 2014).

The semi-structured interviews, with open-ended, exploratory questions were employed which give respondents “the freedom to talk and offer their opinions and understanding of the topic” (Gao & Liu, 2012). The key construct “strategic assets”

was, though theoretically defined, purposefully not operationally defined. Instead we present to interviewees a list of a wide pool of firm-specific resources and capabilities including managerial resources, knowledge-based resources, organisational capabilities, relational resources and physical resources as shown in Beleska-Spasova et al. (2012). Given the idiosyncratic nature of strategic assets and different competitive advantages of different firms, what constitutes strategic assets varies between firms. Thus an open approach was undertaken to enable the most organic, unconstrained responses from interviewees.

As is typical for multiple-case, inductive research methodologies (Eisenhardt, 1989), we began data analysis by synthesising all the interview data and the secondary data. We developed a comprehensive understanding of each case around our research questions through reading and coding all interviews and documents of the acquirer and the target firms. Within-case analysis was followed by cross-case analysis. This supports replication logic, where each case is treated as a different experiment, confirming or disconfirming observations (Eisenhardt & Graebner, 2007; Yin, 2014). To increase the validity of the coding, two of the authors conducted data analysis independently. When there were discrepancies, open discussion was held, drawing on insights from previous literature. This validation process is reiterated by continuously comparing findings with what is known in the extant research. This data analysis process helped sharpen constructs and brought a consensus on the final theoretical categories and their relationships with one another.

4. Findings and Discussion

This section discusses our findings and offers propositions. Table 1 lists the profile of three case companies. The parent company A was founded in the late 1980s as a small factory, but by 2011 it was already listed in the Financial Times Global 500. Such growth can be linked to the booming domestic economy in China. On average, the company has aimed to re-invest 5-7% of sales revenue into R&D. In addition to the commitment to innovation, investments have also been made to provide efficient customer services. Though a well regarded brand in China, the company's international presence had been predominating in exporting until recent years. The success in China has given it the financial leverage to expand internationally. Over the last five years, it has invested aggressively outside China, established over 30 R&D institutions in US, Germany, India and Indonesia. The target firm of company A – a German firm (firm a), has long enjoyed global dominance. It possesses advanced technologies, strong brand name and extensive distribution networks. It is truly an international firm with more than 90% of sales from outside the home country – Germany. However, the firm's internationalisation mainly focused on Europe and North America, its success has yet to be spread to Far East and Africa. According to *Finance Asia* (<http://www.financeasia.com/>), the CMNE's CBMA of the German firm was not a purchase of a distressed asset, but a genuine win-win strategy for two strong companies with different strengths to come together.

The parent company B was set up in early 1990s and has mainly engaged in developing and manufacturing major high-tech equipment for infrastructure construction. The company has made heavy investment in R&D with independent intellectual property rights in 13 major categories and 86 product lines, as well as nearly 800 leading products, but mostly in China. In recently years, the company has taken an aggressive growth strategy to build a global production chain. It now has subsidiaries scattered around more than 40 countries and serves more than 80 countries. In 2013, it also announced a diversification plan into different industries including financial sectors. The target firm of company B, an Italian firm (firm b), is well established and has been positioning itself as full liner with a complete range of products for production, transportation and laying of concrete. This firm has a widespread global distribution network and extensive international partners. Its constant innovation and assurance in the absolute value of quality has made the company name an accomplished brand.

The parent company C was established in mid-1990s. It is one of the biggest manufacturers of cashmere products with strong a reputation in quality in China. During the past 10 years, the company has experienced rapid growth and formed well structured product matrix with optimised manufacturing capacity. Its product sales focused on exporting, with direct exporting accounting for more than 50% of sales revenue in 2013. However, it did not have a strong brand in international market and

this has certainly constrained the company's international development. In addition, the company intended to move up the value chain, but faced entry barriers, particularly, in the international market. On the other hand, the target firm of company C, a British firm (firm c) is one of the world's leading cashmere yarn spinner with over 140 years heritage that stands for exceptional quality and customer service and innovation. This firm is also a supplier to well known luxury brands such as Hermes, LV, Chanel and Prada. It has leading technologies and strong R&D capacity.

Table 2 presents quotations from primary data. We provide explorative evidence and explanations for our two research questions: what strategic assets do CMNEs try to secure through CBMAs in Des and how are their FSAs possessed prior to CBMAs linked to strategic assets that are acquired through CBMAs? How does the partnering approach serve CMNEs' strategic asset-seeking motive?

FSAs and Strategic Assets Acquired through CBMAs

The results from the interviews and secondary data of Chinese parent companies show that they are leading companies in their respective industries in China. They possess resource and capability advantages in the home market. The interviewees stated that the Chinese parent companies developed strong domestically-recognised brands, manufacturing technologies and technological and marketing capabilities. Industry reports and newspaper reports also indicate the brands of companies A, B

and C are considered as one of the top ten brands in their respective industry in China. All parent companies have well-trained management teams and high quality staff. For example, in company C, more than 32% of the employees have college degrees or above. All parent companies have abundant industry knowledge for both the domestic and overseas markets and have a clear understanding of the future directions of their respective industries given their success in sales at home and in the export market. These companies have abundant international experience, though not in CBMAs, but in exporting and working with foreign firms in China. These international experiences have led them to establish links and accumulate knowledge in understanding how to cooperate and work with foreign firms. The above identified strong domestically-developed assets and international experience build foundations for achieving strategic assets seeking motive through CBMAs.

What strategic assets are sought after by CMNEs? Our interview data show that CMNEs are interested in established global brands, advanced technologies and technological and marketing capabilities. The advanced technologies are needed to help improve the parent company's operational weaknesses, such as those in product design, product innovation, process innovation and technological innovation, and move up the value chain through exploiting higher value-added business activities and innovating and creating ever more sophisticated products and services. CMNEs also go after established global networks of the target firms. These network resources have been developed at different stages of growth and under different institutional

environments. Therefore, they are both time consuming and costly to establish. Fierce competition, short product life cycles and rapid technological advances have increased the difficulty of relying solely on internally developed networks. A CBMA is a quick way for CMNEs to access these strategic assets of target firms and improve their competitive advantage. Finally, the interview evidence points out that management expertise is also the strategic assets sought after by CMNEs.

Comparing FSAs of Chinese parent companies with strategic assets acquired through CBMAs reveals the similarity of the asset domain and the complementarity in attributes of the same category and geographic complementarity. This is opposed to the complementarity in the sense of assets that are new and not connected to the existing business. Chinese parents already own domestically-recognised brands and domestically-competitive technologies, but the evidence reveals that these are still behind those from DEs. Acquiring global brands allows CMNEs to adopt dual brand strategy to meet the different requests of different groups of customers, e.g. the Chinese parent companies offer relatively low price products and the foreign target firms meet the needs of the high end market. The foreign target firms in DEs own pioneer technologies and Chinese companies can gain or benefit from learning from their foreign acquisitions to upgrade their level of technologies and improve technological capabilities.

Chinese companies have a well-established network in China and they have

experience in serving foreign markets through exporting. However, establishing their own sales and distribution networks in a host country is difficult, especially in those culturally distant countries. The evidence points out that target firms have established networks not only in their home country, but also spread across the rest of the world. These firms understand the global markets and have global networks, the knowledge on customers of different backgrounds, and relationships with suppliers, customers and other stakeholders. Therefore, the acquisition has enabled the Chinese parent companies and the foreign target firms to access to each other's networks. They can reduce their costs in seeking, defining and establishing new networks.

The above findings confirm the assertion of Zhang (2009, p. 92) that FSAs possessed by CMNEs are "similar in kind to their developed country counterparts, but differ in proportion". CMNEs employ CBMAs to acquire strategic assets, but these assets are in the similar domain as and complement in attributes to their existing FSAs. This is likely to be associated with absorptive capacity and learning effect. Learning is not automatic and the associated costs can be substantial, particularly, when learning involves tacit knowledge. Codified and explicit knowledge is generally transparent, readily accessible and transferable. However, the characteristics of strategic assets imply that they involve tacit knowledge which is deeply embedded in organisational routines and processes. CMNEs therefore must have absorptive capacity and possess a sufficient level of ex ante FSAs to enable knowledge learning and value creation. This is in line with the learning perspective of the internationalization theory (Forsgren,

2013), in which it is highlighted that firms with advanced domestic know-how are more capable of understanding and obtaining knowledge from their foreign counterparts. In addition, the purpose of strategic asset-seeking is not only for exploring international markets, but also for improving firms' overall competitiveness. As CMNEs' main market is still at home, the similarity and complementarity of strategic assets provide them an opportunity to recognise and make sense of the value of acquired strategic assets, link these assets to ex ante FSAs, and assimilate and apply operationally to a new context. Moreover, experience with similar asset domain is likely to make the search process of strategic assets more predictable and more efficient. Thus, asset similarity and complementarity facilitate the exchange, transfer and assimilation of acquired strategic assets.

Proposition 1: CMNEs acquire strategic assets that are in the same domain as and complement to their firm specific assets possessed prior to CBMAs in DEs.

The Partnering Approach

In order to transfer strategic assets to their home country successfully, CMNEs must find an efficient and effective post-CBMA approach to access the target firm's pool of tacit knowledge embedded in the firm's routines, procedures and personnel. All our interviewees illustrate the adoption of the partnering approach in their CBMAs in DEs. They recognise the challenges of post-CBMA management, which require

management capabilities and deep local knowledge that are in short supply in parent companies. Though they have FSAs which give them competitive advantages at home and the international experience accrued to inward internationalisation and exporting, some of these FSAs are not particularly mobile, e.g. domestically-recognised brands, and CMNEs still lack the resources and capabilities in managing target firms with different national and organisational cultures in a different institutional context. The Chinese parent companies maintain the original organisational structure of target firms and grant autonomy to target firm managers, but have a comprehensive audit of the foreign target firms annually.

The adoption of the partnering approach is also linked to the nature of strategic assets that CMNEs sought after. Though similar in asset domain, the complementarity nature means that parent companies are unfamiliar with these strategic assets, particularly the technological and marketing capabilities and global networks, therefore they must rely on target firm's personnel to share knowledge about the complementary elements. Thus, a strategy is needed in which talents of target firms can be retained and utilised. Recognising that the significant differences in national and organisational cultures between the parent company and the target firm could lead to acculturative stress among workforce in the target firm had a traditional structural integration approach was adopted, CMNEs employ the partnering approach so that the concerns of the employees of the target firms are dispelled and they are willing to collaborate, contributing to the strategic asset acquisition objective of the parent companies. This

also avoids disrupting the resources and routines of target firms.

The partnering approach is also used by CMNEs to achieve synergy. The interview evidence indicates that Chinese parent companies have country-specific resources in terms of low labour costs and production capabilities to compensate for the high production costs in European countries. They can offer target firms product components in which they have manufacturing advantages. When a target firm cannot fulfil orders due to capacity constraint, this can be solved by setting up a manufacturing plant in China. The partnering approach can also help with cost reduction. The procurement costs can also be reduced for both parties due to the fact that they have greater negotiating power by working together. Different from the absorption and symbiosis approaches, the synergetic benefits of the partnering approach are achieved through coordination rather than full or partial structural integration.

Proposition 2: The partnering approach helps CMNEs to secure strategic assets through no or limited structural integration, granting autonomy to the management team of a target firm, retaining talents, and creating synergy.

5. Conclusion

While extant literature has highlighted that CMNEs are motivated to acquire strategic

assets, there is little research on what specific strategic assets are sought after by Chinese acquirers, how these assets are linked to their existing FSAs and how the Chinese acquirers secure these strategic assets post their CBMAs in DEs. Understanding these research questions is important for several reasons. First, it is essential to unpack the abstract concept – strategic assets and put them in context. MNEs from different emerging countries with different firm-specific assets may seek for different strategic assets, as their own FSAs determine organisational learning and absorptive capacity. Second, managing post-acquisition is hard enough for incumbent MNEs, as established in the literature. It is an even bigger challenge for CMNEs.

Using case study evidence, we investigate the above mentioned research questions and make a number of contributions to the existing literature. First, by focusing on Chinese manufacture firms, this study helps to advance research on the strategic assets sought after by CMNEs and their links to these firms' ex ante FSAs. Accessing strategic assets that are in the similar domain and complement firms' existing FSAs provide these firms with know-how that could be used in a range of markets. The results are important because they reveal that firms recognise the importance of organisational learning and absorptive capacity in transferring and assimilating foreign strategic assets so as to augment their existing resources and capabilities through CBMAs. Prior possession of relevant knowledge and skills is crucial for the successful acquisition of new strategic assets in the same asset domain. This suggests that managers need to ensure that their firms have the right knowledge management

capabilities for knowledge identification, transfer, assimilation and absorption.

Second, as recognised by Rugman and Li (2007), a CMNE's lack of experience in innovative activities and in CBMAs and the shortage of managerial capabilities are the barriers to the CMNE's strategic asset seeking. The partnering approach characterised by no or limited integration, autonomy given to the original management team of the target firms and synergy creation, provides a viable solution for CMNEs in managing their post-CBMAs and securing strategic assets. Thus, the findings enrich our understanding of how CMNEs manage CBMAs in order to achieve strategic assets-seeking motives. The study here confirms a useful tool for acquiring firm managers when formulating international strategies. DE firm managers seek for Chinese investors due to financial needs or emerging market potential may prefer such an approach and work with the acquired firms in harmony. From the perspective of the employees in target firms, they are more likely to stay which in turn helps with the acquirer's access to strategic assets, given the tacit nature of these assets.

This study has some limitations and further research is required. Due to the characteristics of case study research, the findings should not be simply generalised, although it has the leverage power to reflect on the strategic-asset seeking CMNEs. First, an obvious limitation of our research is its reliance on interview data. Though both telephone and email interviews are two most popular research methods in

international business (Yang, Wang and Su, 2006) and have the virtues of low costs and easy to use, there are potential disadvantages. They miss the nuances of face-to-face interactions so that misleading information may not be detected. The brevity of the conversations means that deep exploration can be difficult. However, we had repeated contact with the interviewees for clarification and to gain a deep understanding of the cases. Second, this study focuses on Chinese manufacturing firms in European countries. Further research could expand the research context to other countries and include more foreign acquisitions across different industries. Different EMNEs may have needs for different kinds of strategic assets in different industries. Such motives may also vary between EMNEs from different nations, so different strategies may be adopted in managing acquisitions of DE target firms. Third, this study proposes that a partnering approach can help CMNEs to secure the strategic assets they need, but can a partnering approach lead to better firm performance? Given the short history of CBMAs by CMNEs in DEs, it is too early to tell. Further studies should address this issue.

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Table 1 – Profile of Three Case Studies

Company	A	B		C
Ownership	Privately owned enterprises	State owned enterprises		State owned enterprises
Industry	Machinery	Machinery		Apparel & Textile
Total Assets (RMB billion), 2012	64.461	88.974		5.053
No. of employees, 2012	34,887	31,707		2,637
Sales (RMB billion), 2012	46.831	48.071		2.426
Profit (RMB billion), 2012	6.881	8.858		0.323
Foreign target's country of origin	Germany	Italy		UK
Acquisition year	2012	2008		2009
Interviewee	A	B1	B2	C
Position	Vice President	Board Member	Global Marketing Manager	CEO
Chinese parent or foreign target?	Chinese parent	Chinese parent	Chinese parent	Foreign target
Interview methods	Telephone and Email	Email	Telephone	Telephone

Table 2 – Strategic Assets and Partnering Approach

		Quotations
FSAs in Chinese parent companies	Domestically-recognised brands and marketing capabilities	“Over 15 years of efforts, the company (the acquirer) has successfully stood on the high ground within the industry (<i>in China</i>) and led the industry with technological innovation and product improvement” (Interviewee B2)
	Manufacturing technologies and technological capabilities	“The company (the acquirer) has the most advanced R&D and manufacturing technologies in the industry (<i>in China</i>).” (Interviewee A)
	International experience	“The company (the acquirer) has done a lot of international market research in the past few years and has accumulated a wealth of international experience in the market.” (Interviewee A)
Strategic assets acquired from foreign target firms	Global brands and marketing capabilities	“Through technological innovation and quality maintenance, the company (the target) has developed the world's leading brand in the industry.” (Interviewee A). “Our foreign target firm has a strong brand with good reputation in the industry.” (Interviewee B1) “The foreign target firm is very well known in the industry.” (Interviewee C)
	Manufacturing technologies and technological capabilities	“The company (the target) has cutting edge technologies that are difficult to imitate. Also, the company has 157 technical experts focus on new technology development, of which about 100 are based in Germany. The company also develops highly customised products for customers in different regions to meet different market requirements.” (Interviewee A) “The company (the target) has distinctive advantages in both product performance and manufacturing processes. Additionally, the company has made 60 trademark applications and has 20 registered patents.” (Interviewee B1) “The company (the target) possesses advanced technologies and that is what we want to acquire from the acquisition.” (Interviewee B2) “The firm is very strong at blending modern technologies with the traditional skills of the eye to match any colour.” (Interviewee C)
	Management techniques	“Chinese manufacturing firms are lagging behind other international enterprises in terms of management and that is the key obstacle to become a true multinational enterprise. ... Through foreign acquisition we (the acquirer) can observe in close distance, enhance the communication between management teams and thus learn their advanced operational management so as to improve our operational capabilities.” (Interviewee B1).
	Global network	“The foreign acquisition has helped us (the acquirer) to expand into the foreign markets. Our foreign target firm ranks No. 1

		<p>outside of China, including the No. 1 position in three big emerging markets, Turkey, Saudi Arabia and India” (Interviewee A)</p> <p>“The company (the target) not only has a high market share and customer loyalty in the traditional European markets, but also has a presence in Eastern Europe, Russia, India and other emerging markets with development potential.” (Interviewee B1).</p> <p>“They didn’t have a presence in the European market, or very little, so the acquisition has allowed them (<i>the Chinese acquirer</i>) to expand into Europe.” (Interviewee C)</p>
Links between parent firm’s FSAs prior to CBMAs and strategic assets acquired through CBMAs	Brands and marketing capabilities	<p>“The foreign acquisition has helped us to improve our brand reputation. The acquisition has led to the combination of resource strength between the Chinese acquirer and the foreign target firm. This has helped us build an international benchmarking project in the industry.” (Interviewee A)</p> <p>“By benefiting from the well-known brands possessed by our foreign target firm, we have implemented ‘dual brand’ strategy to satisfy consumers' different preferences.” (Interviewee B1)</p>
	Manufacturing technologies and technological capabilities	<p>“The advanced or the pioneer technology is one of the biggest strengths of our foreign target firm. The cooperation with the foreign target firm has helped us to improve R&D capabilities.” (Interviewee A)</p> <p>“Although we are in the pioneer position in the domestic industry, in term of advanced products, product reliability or other aspects of manufacturing, we are still lagging behind the European leaders, especially in the brand visibility, user-acceptance aspects. The foreign target firm owns a variety of products and their products, in both product design and technology, are much better than ours. The acquisition has helped us to improve our product performance and has enabled us to upgrade our technology capabilities.” (Interviewee B1)</p>
	Management techniques	<p>“The foreign acquisition can help us to fully learn and absorb foreign advanced management experience and technology and to create favourable conditions for overseas professional and technical personnel to come and work for us.” (Interviewee A)</p> <p>“We have experience and we have sent employees across to their facilities so they have learnt certain things from us. Also, we have a good management team and they all have abundant industry experience.” (Interviewee C)</p>

	Networks	<p>“The combination marks a new era for both companies. The company (<i>foreign target firm</i>) has businesses around the world and sales and manufacturing networks in Europe, Asia, North and South America which we can use to accelerate the pace of internationalization.” (Interviewee A)</p> <p>“Our foreign target firm has a widely spread global distribution network and that is what we need from a foreign acquisition.” (Interviewee B2)</p>
Partnering approach		<p>“The partnering approach helps to maintain the stability of the incumbent management teams as well as to avoid turbulence.” (Interviewee A).</p> <p>“By adopting the partnering approach strategy, the original resources/benefits possessed by the foreign acquisition firm will not be lost. The biggest risk of the CBMA is disrupting everything and establishing a new order in the host country. You do not understand the foreign operations, therefore you should maintain its entire business operations after mergers and acquisitions, especially in those well run businesses with good business continuity. If you acquire a company in a well-planned way, you cannot disrupt it after taking over. What you should do is to keep the independence, integrity and consistency of the foreign operation and make good use of their resources to serve the Chinese market. Then the foreign target firm may also benefit from the Chinese market/resources to help them to reduce costs” (Interviewee B1).</p> <p>“It helps to dispel the concerns of management teams and staff in the foreign target firm” (Interviewee B2).</p> <p>“I think there would have been a risk, such as cultural differences, but what they did was they didn’t put any Chinese managers into the company. So the company is continuously operated by the UK management team, you know, the original management team. I think that is a big success and I think, if they had done differently, it would have been a risk. ... We are a Scottish company, has Scottish heritage. I think this is very important to our customers. Our customer prefers that they are talking to and dealing with Scottish managers. In other words, it helps to retain customers. From our employee’s perspective, our employees feel respected and trusted. I think our employees are very grateful that a Chinese company bought us, because they have made investments and that also gives us, as I say, a guaranteed raw materials supplier that is crucially important to the business. Our employees see a lot benefits from a Chinese acquirer.” (Interviewee C)</p>

Note: Italics in brackets were added by authors to make the statement clearer.