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Absorptive Capacity and Impacts on
Competitive Advantage***

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Chinese Acquisitions in Europe: Absorptive Capacity and Impacts on Competitive Advantage

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ABSTRACT

The number of Chinese acquisitions in Europe is growing rapidly with the primary motivation of accessing advanced technology, knowhow and specialist capabilities. Detailed analysis of case studies shows that Chinese buyers have found ways to increase their absorptive capacity to gain benefits from these acquisitions by adopting post-acquisition integration strategies that focused on preserving and learning about the assets acquired, melding the capabilities acquired with complementary resources and knowledge from China to create new sources of competitive advantage, and by exploiting these new advantages in the China market before expanding into global markets. Implications of theory and practice are drawn.

Keywords: Emerging Markets, Multinationals, Acquisitions. Absorptive Capacity.

Avrupa'daki Çin Devralmaları: Özumseyici Kapasite ve Rekabetçi Avantaj Üzerinde Etkileri

ÖZET

Çin'in Avrupa'daki satın almaları hızla büyüyor. Bundaki temel motivasyon gelişmiş teknoloji, teknik bilgi ve uzmanlık becerilerine erişmektir. Detaylı vaka çalışmaları Çinli alıcıların özümseyici kapasitelerini artırmanın yollarını bulduğunu gösteriyor. Bunlar satın alma sonrasındaki bütünleşme stratejileri ile satın alınan varlıkları koruma ve bunlardan öğrenme, mevcut tamamlayıcı kaynaklar ile Çin'den elde edilen bilgiyle satın almadan edinilen becerileri birleştirme ve bu yolla yeni rekabetçi avantajın kaynaklarını yaratma, bu avantajları küresel pazarlara yayılmadan önce Çin pazarında kullanmaktır. Bunların kuramsal ve pratik sonuçları da sunuluyor.

Anahtar Kelimeler : Yükselen Piyasalar, Çok-uluslu Şirketler, Satın Almalar, Özumseyici Kapasite

Introduction

The number of Chinese acquisitions of European companies has been growing rapidly in recent years. A recent study by the European Union identified 185 partial or full acquisitions of listed firms based in Europe by Chinese companies between 2010 and early 2014.¹ Many of these acquisitions have been in developed Western Europe, with Germany, the United Kingdom and France being the top three destinations. Another survey by Ernst and Young recorded 85 Chinese acquisitions in Europe in 2013 alone and forecast continued growth in excess of 25% per annum.² Data for the private equity industry, meanwhile, suggest that hundreds of additional “off-market” M&A deals of unlisted firms take place each year.³ Some commentators have even described the growth of Chinese acquisitions as “The Scramble for Europe”⁴.

This growth in Chinese acquisitions in Europe begs the question of what impact it will have on the level of competitive advantage these Chinese acquirors are able to achieve both at home and abroad. Extant research suggests the acquirors’ absorptive capacities⁵ will be an important determinant of whether these acquisitions are successful in enhancing competitiveness.⁶ Deng⁷ identifies three components of this absorptive capacity: the capacity to understand the strategic assets acquired; combinative capabilities to assimilate and integrate these assets; and the capacity to transform and apply them for advantage in the market. Drawing on detailed analysis of five case studies of Chinese acquisitions in Europe this paper examines the post-acquisition strategies adopted by Chinese acquirors and how these had impacted the three components of absorptive capacity identified by Deng.⁸

We find that the Chinese companies in our sample adopted post acquisition integration strategies designed to preserve, understand and nurture the strategic assets in the companies they acquired. Furthermore, the Chinese acquirors integrated the newly acquired capabilities and knowledge with existing, “non-traditional” competitive advantages they have built up in China. This enabled them to create *new* and unique sources of competitive advantage, not only to begin to catch up with established global competitors by filling capability gaps and compensating for existing weaknesses. We also found that these Chinese acquirors had sought to mitigate their weaknesses in Deng’s third component of absorptive capacity, applying these advantages in the market, by adopting a strategy of sequential exploitation that began with their home market, then moved to other emerging markets and finally developed markets. Each stage in this sequence allowed for learning that increased their absorptive capacity.

1 EU SME Centre, 2014. http://www.eusmecentre.org.cn/knowledge-centre?status=All&ind=All&oper=All&title=chinese+acquisition+europe&evtype=TYPE_REPORT (Accessed 27th October, 2014).

2 Ernst & Young, 2014. *The Experiences of Chinese Companies in Europe, China Going Global*, E&Y Report.

3 Deloitte. 2014. “More experienced buyers, higher return expectations”, *2014 Greater China outbound M&A spotlight*.

4 Godemont, F., J.Parello-Plesner and A Richard. 2011. *The Scramble for Europe*, Brussels: European Council for Foreign Relations.

5 Cohen, W. M., & D.A. Levinthal. 1990. Absorptive Capacity: A new perspective on learning and innovation. *Administrative Science Quarterly*, Vol. 35, No.1, p. 128-152.

6 Fu, X. & Y. Gong. 2009. “International and intranational technological spillovers and productivity growth in China”, *Asian Economic Papers*, Vol. 8, No.2, p. 1–23. Deng, P. 2010. “Absorptive Capacity and Failed Cross Border M&A”, *Management Research Review*, Vol. 33, No.7, p. 673-682. Lyles, M., D. Li, and H. Yan. 2014. “Chinese Outward Foreign Direct Investment Performance: The Role of Learning” *Management and Organization Review*, Vol. 10, No. 3 (November), p. 411–437.

7 Deng, “Absorptive Capacity...”

8 Ibid.

These results underline the importance of recognising the multidimensional and dynamic nature of absorptive capacity. The implication is that, rather than focusing on an acquirer's existing stock of absorptive capacities it is equally, if not more, important to analyse the actions acquirors may take to improve different dimensions of these capacities during the post-acquisition integration process. Having explained and illustrated these dynamics between absorptive capacity and post-acquisition integration strategies, we then go on to consider the implications of the findings for theory and to discuss some of the implications for managers and policymakers.

Patterns of Chinese M&A in Europe

In 2000, shortly before acceding to the World Trade Organization, the Chinese government came to the view that local companies would need to be globally competitive if they were to match growing rivalry from established multinationals in the home market and as well as contributing to China's broader integration into the world economy. It announced a *zou chuqu* policy (which loosely translates as "Go Global") that encouraged local companies to make acquisitions abroad. This was backed with access to favourable financing often from government-controlled sources. At that time, Chinese outbound merger and acquisition (M&A) activity both globally and in the Europe Union was negligible. Acquisitions in Europe were running at less than € 100 million per annum.⁹

Since then, global Chinese outbound M&A has grown and developed through three broad phases. The first wave of overseas M&A deals, up until 2006, were aimed at accessing product designs, brands, distribution, and sometimes production capacity, overseas, with the aim of growing sales in foreign markets -- often termed in the literature "springboard" acquisitions.¹⁰ Many of these acquisitions proved disastrous, resulting in substantial losses and eventual exit as Chinese companies failed to successfully leverage these acquisitions to win share in overseas markets while suffering quality, operational and labour problems during the acquisition integration. Examples included: D'Long's acquisition of Murray Inc., a global lawnmower and garden-equipment business, which filed for bankruptcy five years later; the acquisition by Shanghai Automotive Industrial Corporation of a 49% equity stake in South Korea's SsangYong Motors in 2004 that resulted in a US\$618 million write-off; and TCL's acquisition of 67% equity stake in the television set manufacturing and marketing business of Thomson Electronics Co Ltd of France in 2006 which was declared insolvent 18 months later.¹¹

A second wave of acquisitions began in 2006 when the focus of acquisitions shifted to hard assets like mineral deposits and oil and gas reserves – "resource seeking" acquisitions in the narrowest sense of the term. There was also a boom in acquisitions of stakes in financial services companies abroad in 2007 as Chinese financial institutions with large cash reserves sought to expand their operations abroad. The timing, with hindsight, was catastrophic – although Chinese financial institutions were hardly alone among their global peers in having their fingers burnt in this arena.

9 Hanemann, T. and D.H. Rosen. 2012. *China Invests in Europe: Patterns, Impacts and Policy Implications*, New York: Rhodium Group.

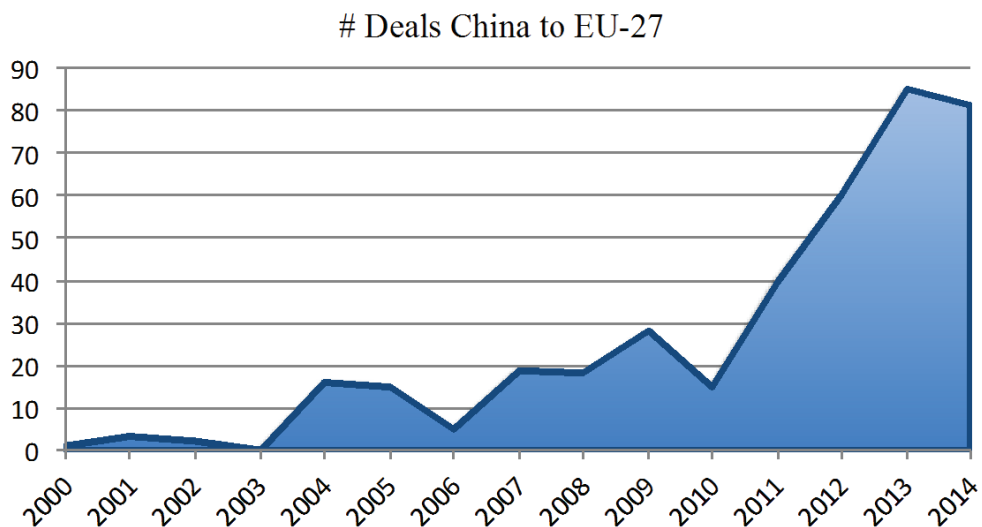
10 Luo, Y. D. and R. L. Tung. 2007. 'International Expansion of Emerging Market Enterprises: A Springboard Perspective', *Journal of International Business Studies*, Vol.38, No. 4, p. 481-498.

11 Williamson, P. J. and A. P. Raman. 2011. "How China reset its acquisition agenda", *Harvard Business Review*, Vol. 89, No. 4 (Apr), p.109-114.

Since 2008, deals aimed at securing the supply of raw materials and energy resources into China have continued to grow rapidly. Chinese outbound M&A deals in energy and resources reached a value of €6.7 billion in the first five months of 2014.¹² Some of these have involved resource companies listed on European stock exchanges (such as the \$8.9 billion acquisition of Swiss-headquartered Addax Petroleum Corp in 2009), but the relatively small reserves of economic natural resources and fossil fuels in Europe (excluding Russia) compared with other continents means that acquisitions aimed at securing natural resource supplies are generally less relevant. Of more importance is the gathering pace of a parallel, third wave of acquisitions that has seen the steady growth in acquisitions of “industrial” companies abroad. These acquisitions are primarily aimed at capturing technology, know-how, and sometimes brands.¹³ Being smaller, and often “off-market” deals the acquisitions of technology and know-how have received less attention in the press. As we will argue below, however, they have potentially far-reaching implications for the changing global competitiveness of Chinese acquirors.

With a few exceptions, such as the acquisition of Thomson Electronics Co Ltd’s television set business, European acquisition targets were relatively rare in these first and second phases of China’s “go global” push. Once the focus of Chinese outbound M&A shifted toward technology and to some extent brands, however, the number of acquisitions in Europe by Chinese companies grew rapidly (Figure 1).

Figure 1: The Growth of Chinese Acquisitions in Europe



Sources: Rhodium Group; E&Y

By 2013 Germany had become the largest destination for Chinese M&A activity in terms of number of deals, 70% of which were in the manufacturing sector. In terms of industry, the automotive sector saw the most activity. In the first half of 2014, Chinese firms spent more than €2.7 billion in

¹² Deloitte, “More experienced buyers...”

¹³ Williamson, P. J. and Raman, A., 2013, “The Competitive Advantage of Emerging Market Multinationals”, Ch. 12 in: P. J. Williamson, R. Ramamurti, A. Fleury, and M.T. Leme Fleury, *The Competitive Advantages of Emerging Market Multinationals*, Cambridge, UK: Cambridge University Press.

acquisitions in the automotive industry in Western Europe as a whole, with Germany accounting for the largest number of these deals.¹⁴ Chinese firms used these acquisitions to obtain access to a range of technologies with the potential to make improvements in safety systems, fuel consumption and emissions reduction, as well as core capabilities in designing automotive components. The Chinese transportation equipment maker AVIC Electromechanical Systems Company, for example, acquired Hilite International, the German developer and manufacturer of automotive system solutions for car and truck original equipment manufacturers and first-tier suppliers of powertrains, from the UK private equity firm 3i Group, for €508 million in May 2014.¹⁵ Goodbaby International Holdings, one of the world's largest designers and manufacturers of baby mobility durables, acquired Columbus Holding GmbH, a German leader in the design and sale of car safety seats, baby carriers and pushchairs, for €76 million in early 2014.¹⁶

During 2013 and the first half of 2014, UK accounted for the second largest number of Chinese M&A deals. Some of these involved the acquisition of international natural resource or trading companies listed on the London Stock Exchange. Other acquisitions in the UK, however, were focused on helping Chinese companies gain access to systems and knowhow in services industries or brands and consumer marketing capabilities. Chinese retailer, Sanpower Group's US\$803 million acquisition of an 89 percent stake in the British high-street department store House of Fraser in April 2014 is one example. Asked why the House of Fraser acquisition could help his company, the founder Yuan Yafei observed that Sanpower could learn from the brand and the supply chain management experience it has built since 1849.¹⁷ In 2012, Bright Food Group Co. of China acquired British breakfast cereal Weetabix for £1.2 billion. Wang Zongnan, Bright's chairman, explained the rationale for acquiring Weetabix was to sell more of its products in China and the rest of Asia by using an established and trusted brand.¹⁸

Smaller numbers of Chinese acquisitions focused in accessing technology, knowhow or brands have also been concluded in Italy, France, Scandinavia and Central Europe over the past few years.

The overall pattern of Chinese acquisitions in Europe, therefore, suggests that the "strategic asset seeking" behaviour identified by previous research on Chinese acquisitions¹⁹ has increased in importance to become the main driver of European acquisitions in recent years. This may reflect lessons learnt from earlier failed acquisitions²⁰ as well as growing technological and innovative capabilities among Chinese firms²¹ that is helping to increase their absorptive capacity in respect of technology and R&D capabilities that are the main attraction of European acquisitions. Since the

14 Deloitte, "More experienced buyers..."

15 Reuters, 2014, "3i group sells Hilite international for 473 million euros", May 29, 2014, <http://uk.mobile.reuters.com/article/mergersNews/idUKFWN0OE00H20140529> (Accessed 27th October, 2014).

16 The Standard, 2014, "Goodbaby buys German brand for \$749m", 29 January 2014, http://www.thestandard.com.hk/news_detail.asp?we_cat=2&art_id=142026&sid=41430739&con_type=1&d_str=20140129&fc=4 (Accessed 27th October, 2014).

17 Sevastopulo, D. 2014, "Yuan Yafei, Sanpower chairman – Only strange people can succeed", *Financial Times*, <http://www.ft.com/cms/s/0/d8cad0b0-d057-11e3-8b90-00144feabdc0.html?siteedition=uk#axzz3HFz00j6t> (Accessed 27th October, 2014).

18 Waldmeir, P. 2013, China's Bright Food ponders Weetabix IPO, *Financial Times*, 21st November, p. 4.

19 Rui, H. and G.S. Yip, 2008. "Foreign acquisitions by Chinese firms: A strategic intent perspective", *Journal of World Business*, Vol. 43, p. 213-226. Deng, P. 2009. "Why do Chinese firms tend to acquire strategic assets in international expansion?", *Journal of World Business*, Vol. 44, No.1, p. 74-84.

20 Williamson and Raman, "How China reset..."

21 Llewelyn, D. and P.J. Williamson. 2015. "China's IP Protection Minefield: Separating fact from fiction", *Intellectual Asset Management*, January-February, p. 34-41.

main potential value of this type of acquisitions lies in successfully internalising and leveraging newly acquired capabilities, the question of how the post-acquisition process is managed and what impact this has on absorptive capacity of the acquirors becomes particularly germane.

Absorptive Capacity and Chinese M&A in Europe

Deng noted a high level of failure and value destruction in early Chinese acquisitions abroad.²² This result was substantially ascribed to the weak absorptive capacities of the acquiring firms. More specifically, studying TCL's acquisition of Thomson's television set business in 2004, Deng²³ showed how weakness in three dimensions absorptive capacity: the capacity to understand the strategic assets acquired; combinative capabilities to assimilate and integrate these assets; and the capacity to transform and apply them for advantage in the market, led to poor performance of this acquisition.

In what follows we revisit these three dimensions of absorptive capacity in the light of related theory and empirical evidence to generate a series of hypotheses about how the strategies acquirors might adopt to expand their absorptive capacities and thus improve the likelihood of their acquisitions delivering positive performance.

Strategies to Preserve and Understand the Assets Acquired

Research points to one of the main reasons a high proportion acquisitions globally fail to deliver on their potential is acquirors' inability to understand and appropriately manage the assets they acquire -- especially intangible assets, including knowledge.²⁴ This risk is likely to be aggravated by the high psychic distance between China and Europe²⁵ that magnifies Chinese firms "liability of foreignness".²⁶ Moreover, as latecomers to internationalisation, most Chinese EMNEs suffer from a shortage of management staff with extensive experience operating in foreign markets or undertaking acquisition integration.²⁷

A number of studies have shown that Chinese acquirors have avoided the potential for value destruction associated with these cognitive and managerial limitations in their absorptive capacities by adopting "light-touch" integration strategies²⁸ or "limited structural integration".²⁹ In many cases, however, this research also found that such strategies limited the potential to generate value or enhance competitive advantage from the acquisition.³⁰

On the other hand, there is evidence that it is possible to mitigate many of the constraints of limited cognitive and managerial absorptive capacity by adopting a "preservation" strategy³¹ or

22 Deng, "Absorptive Capacity..."

23 Ibid.

24 Kummer, C. & U. Steger. 2008, Why Merger And Acquisition (M&A) Waves Reoccur: The Vicious Circle From Pressure To Failure, *Strategic Management Review*, Vol. 2, No. 1, p. 44-63.

25 Child, J., S. H. Ng & C. Wong. 2002. Psychic Distance and Internationalization: Evidence from Hong Kong Firms, *International Studies of Management and Organization*, Vol. 30, No.1, p. 36-54.

26 Zaheer, S. 1995. "Overcoming the Liability of Foreignness", *Academy of Management Journal*, Vol. 38, No. 2, p. 341-363.

27 Williamson and Raman, "How China reset..."

28 Liu Y. & M. Woywode. 2013. "Light-Touch Integration of Chinese Cross-Border M&A: The Influences of Culture and Absorptive Capacity, *Thunderbird International Business Review*, Vol. 55, No. 4. (July-August), p. 469-483.

29 Chattopdhyay, A., R. Batra with A. Ozomer, 2012. *The New Emerging Market Multinationals*, New York: McGraw Hill.

30 Liu and Woywode, "Light-Touch Integration..."

31 Haspeslagh, P. and D. Jemison. 1990. *Managing Acquisitions: Creating Value Through Corporate Renewal*, New York: Free Press.

a “partnership” approach to post-acquisition integration.³² These approaches start with targeting acquisition candidates through a “friendly” approach rather than launching a hostile bid, promoting the benefits of a deal to both parties with the view to securing management’s recommendation to proceed, and focusing the deal-making team on the importance of addressing the concerns of the target company with the aim of securing buy-in before the deal is completed. Post acquisition the emphasis is placed on nurturing and investing in the acquired firm and opening channels to accumulate learning about the acquired company rather than immediately imposing the acquiror’s processes and procedures or implementing drastic restructuring.³³

It is obviously more feasible to adopt an approach that emphasises preservation and learning if acquired firm is already performing satisfactorily and not in need of a turnaround to stem losses. Where Chinese companies make a strategic asset-seeking acquisition of a firm that is already commercially viable, therefore, we propose the following hypothesis:

Proposition 1: Chinese companies acquiring viable companies in Europe can enhance their absorptive capacity by adopting post-acquisition integration strategies that focus first on preservation, nurturing and investing in the acquired company and putting in place organisational structures processes designed to accumulate learning about the target company (while avoiding either “hands-off” approaches or the wholesale imposition of corporate policies).

Strategies to Promote Combination and Integration of Acquired Assets to Create New Sources of Advantage

Much of the early literature on EMNEs argued that they typically lack proprietary sources of competitive advantage and that their advantages instead stemmed purely from fortuitous access to “country specific advantages” (CSAs) such as a pool of low-cost labour in their country.³⁴ This led to the supposition that strategic asset-seeking acquisitions by EMNEs were designed to help them catch up with mature MNEs³⁵ by offsetting competitive disadvantages³⁶ or compensating for their “competitive weaknesses”.³⁷

More recent research, however, has identified proprietary competitive advantages that EMNEs have built, but that had been overlooked because they were “non-traditional” advantages rather than more familiar proprietary technologies or brands. Examples of these advantages include capabilities to: re-engineer products to provide better value for money at adequate quality³⁸; bring

32 Kale, P., H. Singh and A. Raman, 2009, “Don’t Integrate Your Acquisitions, Partner With Them”, *Harvard Business Review*, Vol. 87, No. 12 (December), p. 109-115.

33 Haspeslagh and Jemison, *Managing Acquisitions...*

34 Rugman, A. M. and A. Verbeke. 2001. “Subsidiary-specific advantages in multinational enterprises”, *Strategic Management Journal*, Vol. 22, p. 237–50.

35 Bruton, G.D. & C.M. Lau. 2008. Asian Management Research: status today and future outlook”, *Journal of Management Studies*, Vol. 45, p. 636-659. Mathews, J. A. 2002, *Dragon Multinational: a New Model for Global Growth*, Oxford, UK: Oxford University Press. Mathews, J. A. 2006. “Dragon multinationals: New players in the 21st century globalization”, *Asia Pacific Journal of Management*, Vol. 23, p. 5-27. Mathews, J. A. 2009. “China, India and Brazil”, *Asian Business & Management*, Vol. 8, p. 5-32. Madhok, A. and M. Keyani. 2012, “Acquisitions as entrepreneurship: Internationalization, acquisition and multinationals from emerging economies”, *Global Strategy Journal*, Vol. 2, No. 1, p. 24–54.

36 Rui and Yip, “Foreign acquisitions...”

37 Luo and Tung, “International Expansion of...”

38 Williamson, P., & M. Zeng. 2009. Chinese multinationals: Emerging through new global gateways. In R. Ramamurti & J. V. Singh (Eds.), *Emerging multinationals in emerging markets*, Cambridge, UK: Cambridge University Press, p. 81-109.

new technology rapidly to mass markets and offer high variety and customisation at low cost (dubbed “cost innovation” capabilities by Zeng & Williamson³⁹); unlock latent demand in low-end segments,⁴⁰ innovate in production processes and business models emerging markets,⁴¹ deal with weak institutions and infrastructure,⁴² or optimize their value chains globally in ways that allow their low-cost talent and resources to be leveraged effectively in emerging markets.⁴³

The fact that EMNEs enjoy these “non-traditional” sources of competitive advantage (that go beyond advantages such proprietary technologies or brand equity often seen as underpinning the success of MNEs) raises the potential to combine these with newly acquired assets and capabilities to create new and distinctive sources of competitive advantage. If such combinations were successfully achieved, then strategic asset-seeking acquisitions could allow EMNEs to build sources of competitive advantage not enjoyed by incumbents MNEs (who lacked the underlying non-traditional capabilities necessary to build them). Instead of simply catching up with incumbent MNEs, therefore, EMNEs with capacity to meld newly acquired assets into new types of advantages might actually be able to surpass the incumbents on certain competitive dimensions. To reap this potential EMNEs would need to focus their post-acquisition integration strategies initiatives on promoting the combination and integration of newly acquired assets with their own, non-traditional competitive advantages. These arguments lead us to propose the following hypothesis:

Proposition 2: Chinese acquirors can enhance their effective absorptive capacity by adopting post-acquisition integration strategies that promote the combination of acquired assets with existing, existing non-traditional advantages and capabilities in order to create new sources of competitive advantage (rather than simply focusing on “catch-up” by adding new assets and capabilities to their existing portfolio).

Strategies to Promote Smooth Exploitation of New Competitive Advantages

The third weakness in absorptive capacity of Chinese firms identified by Deng⁴⁴ was the capability to transform and apply a newly expanded portfolio of assets and capabilities for advantage in foreign markets. It has been argued that this weakness is aggravated by factors including high psychic distance between China target markets, especially developed markets⁴⁵ and a shortage of management staff with sufficient experience operating in foreign markets.⁴⁶

39 Zeng, M. and P.J. Williamson. 2007. *Dragons at your door: How Chinese cost innovation is disrupting global competition*. Boston, MA: Harvard Business School Press.

40 Prahalad, C. K. 2006. *The fortune at the bottom of the pyramid*. Philadelphia: Wharton School Publishing.

41 Ramamurti, R. 2012. “Commentaries: What is really different about emerging market multinationals?”, *Global Strategy Journal*, Vol. 2, No.1, p. 41-47.

42 Morck, R., B. Yeung and M. Zhao. 2008. Perspectives on China’s outward foreign direct investment. *Journal of International Business Studies*, Vol. 39, p. 337-350. Cuervo-Cazurra, A. and M. Genc. 2008. “Transforming disadvantages into advantages: developing country MNEs in the least developed countries”, *Journal of International Business Studies* Vol. 39, No. 11, p. 957–79.

43 Williamson, P. J., R. Ramamurti, A. Fleury and M. T. Leme Fleury, (eds.) 2013. *The competitive advantage of emerging country multinationals*. Cambridge UK: Cambridge University Press.

44 Deng, “Absorptive Capacity...”

45 Child, Ng and Wong, “Psychic Distance...”

46 Williamson and Raman, “How China reset...”

The weaknesses in this aspect of absorptive capacity might be mitigated by Chinese acquirors, however, if they were to follow a sequential approach to applying their newly expanded portfolio of capabilities where these were first applied to their domestic market and then other emerging and developing markets before tackling developed markets. Following such a sequence would have a number of potential advantages.

Chinese EMNEs almost certainly have advantages against other multinationals in exploiting these newly-created competitive advantages in the China market as a result of better capabilities in accessing distribution, leveraging government relationships and understanding the needs, preferences and buying behaviours of local consumers.⁴⁷

Choosing to leverage the services of the assets acquired overseas back in the home market may also allow much of the necessary integration to also take place in China. This would simplify the post-acquisition integration challenges. The task post-acquisition integration overseas could focus on preserving the existing capabilities in the acquired company, motivating the staff to share capabilities as well as to continuing to develop them, and putting in place an interface and mechanisms to transfer the knowledge and capabilities from overseas back to the acquiror's domestic organisation. This can still be challenging (as found by Di Minin, Zhang and Gammeltoft⁴⁸), but it is almost certainly easier than attempting to integrate and leverage the newly acquired capabilities in a foreign market. Moreover, because integration of the services of the newly acquired strategic assets can call on the full portfolio of capabilities existing within the home-base organisation, constraints associated with managing the integration overseas, such as lack of global experience, can be more easily side-stepped.

Choosing other emerging and developing countries for the second stage of exploitation of the newly integrated portfolio of capabilities and advantages, meanwhile, maximises the likelihood of tapping into similarities with the Chinese market environment that can help to facilitate the process. By focusing on emerging and developing markets as the second step, for example, Chinese acquirors are more likely to be able encounter conditions with which they are familiar at home such as the need to compete on value-for-money,⁴⁹ deal with rapid change⁵⁰ and cope with institutional voids.⁵¹

By waiting until a final stage to apply their extended portfolio of capabilities and potential advantages to developed markets, Chinese acquirors will improve their chances of success because they will by then have accumulated greater experience of exploitation than in the first phase (even though they will still need to master the peculiarities of exploitation in developed markets).

This leads us to propose the following hypothesis:

Proposition 3: Chinese companies acquiring companies in Europe can enhance their absorptive capacity by integrating and leveraging the services of assets newly acquired abroad first to gain advantage in the Chinese domestic market, then in other emerging and developing markets that share characteristics with the China market, and delaying entry into developed markets substantial experience in exploitation has been accumulated elsewhere.

47 G.Ger, "Localizing in the Global Village: Local Firms Competing in Global Markets", *California Management Review*, Vol.41, No.4, 1999, p.64-83.

48 Di Minin, A., J. Zhang, and P. Gammeltoft. 2012. "Chinese foreign direct investment in R&D in Europe: A new mode of R&D internationalization", *European Management Journal*, Vol. 30, p. 189-203.

49 Williamson and Zeng, "Chinese Multinationals..."

50 Williamson, P. J. and E. Yin. 2014. "Accelerated Innovation: The New Challenge From China", *MIT-Sloan Management Review*, Vol. 55, No. 4 (Summer), p. 27-34.

51 Khanna, T., K. G. Palepu and J. Sinha. 2005. Strategies That Fit Emerging Markets. *Harvard Business Review*, Vol. 83, No. 6 (June), p. 63-76. Cuervo-Cazurra and Genc, "Transforming Disadvantages..."

The next section of this paper outlines the case-study methodology deployed examine these hypothesis with the aim of shedding light on how Chinese companies managed the processes of understanding the strategic assets acquired; combining capabilities to assimilate and integrate these assets; and applying them for advantage in the market so as to improve their absorptive capacities.

Research Methodology

In seeking to answer these questions we relied on inductive theory building using multiple cases.⁵² This multiple case study methodology was chosen because it has proven particularly effective in developing new theory from consistent patterns within case data using replication logic in which each case serving to confirm (or disconfirm) the emergent theory.⁵³ Moreover, multiple case studies are more likely to yield more generalized, robust, and parsimonious theory than single-case studies.⁵⁴

Data Collection

Data collection relied on several sources: observations, interviews, and archival data such as internal documents, annual reports, websites, and news articles in order to triangulate the data and so improve the accuracy of the picture emerging.⁵⁵ The aim was to analyse a sufficient number of case studies and range of industries to increase confidence that the results had some general applicability while limiting the sample so as to enable in-depth interviews within a tractable timescale. Cases were also selected such that the acquisition integration process had run for at least two years so as to have sufficient timespan over which to assess the integration approach and outcomes. Based on these considerations case studies one acquisition by each of five Chinese companies were targeted and completed covering a wide span of industries: ChemChina (chemicals); Huawei (telecommunications equipment); Kingswood Printing Inks (printing ink); Beijing Automotive Industrial Company (automotive); Industrial & Commercial Bank of China (banking). Brief details of the nature and timing for each of these acquisition cases are provided in the Appendix. Multiple interviews were conducted in each company with a total of 21 interviews conducted by the author (at least four interviews in each company). Interviewees were encouraged to provide more details when their descriptions were brief or when novel strands of narrative emerged.⁵⁶ Data collection stopped when theoretical saturation was reached.⁵⁷ Interviews commonly lasted for between one and two hours.

52 Eisenhardt, K. M. 1989. Building Theories from Case Study Research. *Academy of Management Review*, Vol.14, No.4, p. 532-550.

53 Ibid.

54 Langley, A. 1999. Strategies for theorizing from process data. *Academy of Management Review*, Vol. 24, No. 4, p. 691-710. Yin, R. K. 2003. *Case study research: design and methods* (3rd ed.). Newbury Park, CA: Sage.

55 Jick, T. D. 1979. Mixing qualitative and quantitative methods: triangulation in action. *Administrative Science Quarterly*, Vol. 24, No. 4, p. 602-611.

56 Martin, J. A., and K. M. Eisenhardt. 2010. Rewiring: cross-business-unit collaborations in multibusiness organizations. *Academy of Management Journal*, Vol. 53, No.2, p. 265-301. Strauss, A., and J. M. Corbin. 1990. *Basics of qualitative research: techniques and procedures for developing grounded theory*. Newbury Park, CA: Sage.

57 Strauss, A. 1987. *Qualitative analysis for social scientists*. New York: Cambridge University Press.

Data Analysis

Within-case and cross-case analyses were used following recommendations for multiple case studies.⁵⁸ Individual cases were written up to triangulate all of the data including observations, interviews, documents.⁵⁹ A cross-case analysis was then conducted using replication logic across firms, treating each firm as a case. This analysis focused first on characterising key aspects of the nature of the post-acquisition process. Following⁶⁰ this included an analysis of: the degree to which the new owners retained management and staff; the amount and nature of new investments made in the acquired business; and the organisational and management interfaces between the acquiror and the acquiree.

The second aspect analysed was the various new sources of competitive advantage that may have resulted from combining the existing resources and capabilities of the Chinese acquiror with those accessed through the acquisition.

The third aspect considered was the strategy for market exploitation of these enhanced competitive advantages, with particular emphasis on the choice of markets. Cross-case analysis probed for alternative theoretical relationships and constructs that might fit the data better than the initial emergent theory.⁶¹ This led to the conclusion that a key aspect of market exploitation strategy was whether the newly-created competitive advantages were deployed as first priority in the Chinese domestic market, other emerging markets, or developed markets.

Case Study Findings

The findings of the analysis of the case studies in terms of the three questions posed above are presented in Table 1.

Acquisition Integration Processes

Accessing technology, know-how, and R&D capacity was an important goal (sometimes among others) in all of our case studies. It is perhaps not surprising, therefore that in every case the Chinese acquirors took steps to retain the existing management and key staff (and hence the knowledge) of the European companies they purchased. Despite some reservations among staff about Chinese ownership, the acquirors were also very largely successful in retaining and also motivating the management and staff of the acquired firms. One important reason was that acquisition by the Chinese company created new opportunities for the acquired companies by improving access to the China market, and hence growth – a fact that was widely recognised by the management and employees.

The positive message that the new Chinese owners could enhance the prospects for the companies they acquired was reinforced by the actual investments in hiring new staff locally and improving facilities and equipment that were made within the first year of ownership (and in a number of cases, almost immediately). In the case of banking, meanwhile, the Chinese acquiror increased the

58 Eisenhardt, "Building Theories..." Miles, M. B., and A. M. Huberman. 1994. *Qualitative data analysis: a sourcebook of new methods*, 2nd ed. Beverly Hills, CA: Sage.

59 Jick, "Mixing qualitative..."

60 Haspeslagh and Jemison, *Managing Acquisitions...*

61 Eisenhardt, "Building Theories..." Gilbert, C. G. 2005. Unbundling the structure of inertia: resource versus routine rigidity. *Academy of Management Journal*, Vol. 48, No.5, p. 741-763.

capital base on which to expand the business. In most cases these investments took place in the home base of the acquired company (so as to expand R&D capacity, for example).

All of the Chinese acquirors in our sample also invested substantial effort with the aim of increasing their own absorptive capacity. Huawei and Kingswood Brancher restructured and enhanced their product development processes, creating new projects and streams of activity to link their newly acquired R&D capabilities in Europe with product and process design capabilities in China to enable new technology to be commercialised and scaled up. Both also subsequently invested in specialised manufacturing capacity to produce the new products based on European technologies. ICBC created new teams in China to interface between Chinese customers and business units and the new trading team acquired from Standard Bank in London. In the case of the BAIC-Saab transaction absorptive capacity was increased by re-locating two specialised plants for the manufacture of car transmissions to China, complemented by the expansion of Chinese manufacturing capacity for other components. ChemChina sought to improve the absorptive capacity of its existing nutritional additives unit in China by putting the management of the acquired company in charge of its Chinese expansion as described below.

The M&A literature points to the interface structure and staffing as a critical determinant of the degree to which acquisitions are successfully integrated.⁶² In four of the five cases studied, the senior management of the Chinese acquiror headed up the integration team. In the fifth case, Huawei-CIP, senior management oversight was augmented by the appointment of a new research director to the acquired firm. This individual was a Chinese national who had earned his PhD overseas, with some years of experience working for an American company, who had also spent some years working for Huawei in China. He was, therefore, able to act as a bridge between the two organisations, helping to overcome differences in national and company culture and enterprise size between Huawei and CIP.

In all of the acquisition cases new structures were also established through which to manage the interface between the Chinese acquiror and the acquired company in Europe. These included: establishing joint committees both for strategy and particular functional and operational areas; joint product development teams; and processes to facilitate the rotation or transfer of staff, including rotation of Chinese engineers through Europe (4 of 5 cases) and the transfer or secondment of European designers and engineers to China (2 cases). ChemChina went even further, establishing a new global business unit to manufacture and market Adisseo's nutritional additives for the animal feed sector. Senior management from the acquired company headed this global business unit up, with the result that they were also given responsibility for the Chinese operations in that product line.

These findings support the first of our hypotheses, that Chinese companies could enhance their absorptive capacity in respect their ability to properly understand the strategic assets acquired by adopting post-acquisition integration strategies that focus on preservation, nurturing and investing in the acquired company and putting in place organisational structures processes designed to accumulate learning about the target company.

Resulting Competitive Advantages

As was noted earlier, most theoretical models of strategic asset-seeking by EMNEs are built around an underlying (and sometimes implicit) assumption of "catch-up" by these firms relative to more experienced multinationals.⁶³ Our case study findings suggest that something more complex is going on.

62 Haspeslagh and Jemison, *Managing Acquisitions...*

63 Luo and Tung, "International Expansion of..." Rui and Yip, "Foreign acquisitions..." Deng, "Why do Chinese firms..."

First, we found evidence that the Chinese acquirors had built distinctive competitive advantages back at their home base. Compared with both their Chinese and international competitors, Huawei and Kingswood Brancher, enjoyed superior capabilities in areas of product design (especially value engineering) and accelerated product development,⁶⁴ as well as in manufacturing process innovation, and the capability to reap scale economies through rapid scale-up. The two latter advantages were also enjoyed by ChemChina and BAIC. Interviewees, for example, quoted benchmark data on product functionality and variety as well as comparisons of product development cycles and the time taken to commission and start up large-scale manufacturing lines to justify their claims. ICBC, meanwhile, pointed to the breadth and depth of its network in China and the speed with which innovative services and technologies had been introduced both at home and in other emerging markets as evidence of competitive advantage in customer relationship building and distribution.

The presence of these existing competitive advantages among Chinese acquirors is important because it opens the way for the potential that the capabilities accessed through acquisitions in Europe might allow new combinations of capabilities that, in turn, could generate novel and distinctive sources of competitive advantage. If this were the case, strategic asset seeking through acquisitions in Europe might help Chinese firms go beyond the catch up postulated in existing literature⁶⁵ to gain a competitive edge over established rivals in at least some areas.

In fact, our case studies find that rather than being only additive, the process of combining existing advantages with new capabilities acquired in Europe sometimes creates new sources of competitive advantage that are distinctive from those of established global competitors. There is evidence that Chinese acquisitions in Europe do help the acquirors to catch up with global competitors (ChemChina achieved minimum efficient scale in methionine and BAIC upgraded the quality of its passenger cars to world-class standards, for example). But we were also able find evidence of the creation of new and distinctive sources of competitive advantage relative both to Chinese competitors (who lack the capabilities available in Europe) and established multinationals from Europe and elsewhere (who lack the distinctive capabilities some of the acquirors had built up in China) as a result of acquisition integration. Examples from the cases include: the development of innovative, environmentally-friendly inks by Kingswood; innovations achieved by applying new photonics technologies to cost-efficient telecommunications equipment produced by large-scale manufacturing processes at Huawei; and the combination of London trading experience with the knowledge of Chinese corporate treasury behaviour to develop new risk management tools to enable offshore trading of Renminbi to be pioneered by ICBC.

These findings support our second hypothesis, that Chinese acquirors can gain benefits from strategic asset-seeking acquisitions that go beyond only catch-up and filling capability gaps by adopting post-acquisition integration strategies that promote the combination of acquired assets with existing, non-traditional advantages and capabilities to create new sources of competitive advantage.

Market Exploitation Strategies

Without exception all acquirors the case studies examined chose to leverage their newly created competitive advantages in the China market as the first priority (in the case of ICBC this meant focusing on Chinese clients wishing to execute international transactions). At one level this pattern may not seem surprising given the huge size and rapid growth of the Chinese markets compared

64 Williamson and Yin, "Accelerated Innovation..."

65 Luo and Tung, "International Expansion of..." Rui and Yip, "Foreign acquisitions..." Deng, "Why do Chinese firms..."

to most other markets around the world and the advantage Chinese acquirors can be expected to enjoy in “out-localizing” foreign MNEs in the Chinese market.⁶⁶ But is at variance with most of the extant theory on internationalisation processes that assumes the primary aim of foreign acquisitions (including strategic asset-seeking ones) is to provide a springboard to penetrating foreign markets.⁶⁷

Once Chinese acquirors had successfully leveraged their new and enhanced competitive advantages in the Chinese market, three of the firms in the sample next chose to deploy these advantages in other emerging markets as we hypothesised above.

The exception to this pattern of sequential exploitation was Huawei where the innovative products resulting from integrating new technology and capabilities from the European acquisition were launched in China but then quickly rolled out globally. This probably reflects the more homogenous global requirements in the market for leading-edge telecommunications equipment and the Huawei’s more mature international organisational capability as the largest supplier of in the world with over 60% of its sales outside China across 170 countries.

These findings, therefore, largely support our third hypothesis that Chinese companies acquiring companies in Europe can enhance their absorptive capacity by integrating and leveraging the services of assets newly acquired abroad first to gain advantage in their domestic market, then in other emerging and developing markets that share characteristics with the China market, and delaying entry into developed markets until substantial experience in exploitation has been accumulated elsewhere.

Discussion

After the initial surge of cross-border acquisitions starting in the early 2000s that were designed to secure a springboard for the growth of international sales largely proved unsuccessful and acquisitions of natural resources companies offered limited scope to create additional value, Chinese companies then began to focus on foreign acquisitions as a means of accessing technology, knowhow and capabilities that could be integrated with their existing operations to enhance their competitiveness. Europe offered a potentially fruitful environment in which to pursue this new strategy because of its considerable technological strengths and specialist capabilities and products and the fact that these were often owned by small- and medium sized companies where takeovers would face lower political and market barriers and would be easier to integrate than would be the case for large corporations. As a result, the number of acquisitions made by Chinese companies in Europe has grown rapidly since around 2008.

Arguably the most significant barrier to reaping the potential of these European acquisitions is weakly developed absorptive capacity among Chinese acquirors. As Deng⁶⁸ shows, this can undermine the realisation of the potential of acquisitions on three levels: failure to properly understand the strategic assets acquired; failure to combine and integrate these assets; and failure to transform and apply them for advantage in the market. The multiple case study research presented in this paper suggests that Chinese acquirors in Europe have been able to find effective ways of improving their absorptive capacity on all of these three dimensions.

66 Ger, G. 1999. “Localizing in the Global Village: Local Firms Competing in Global Markets”, *California Management Review*, Vol. 41, No. 4, p. 64-83.

67 Luo and Tung, “International Expansion of...”

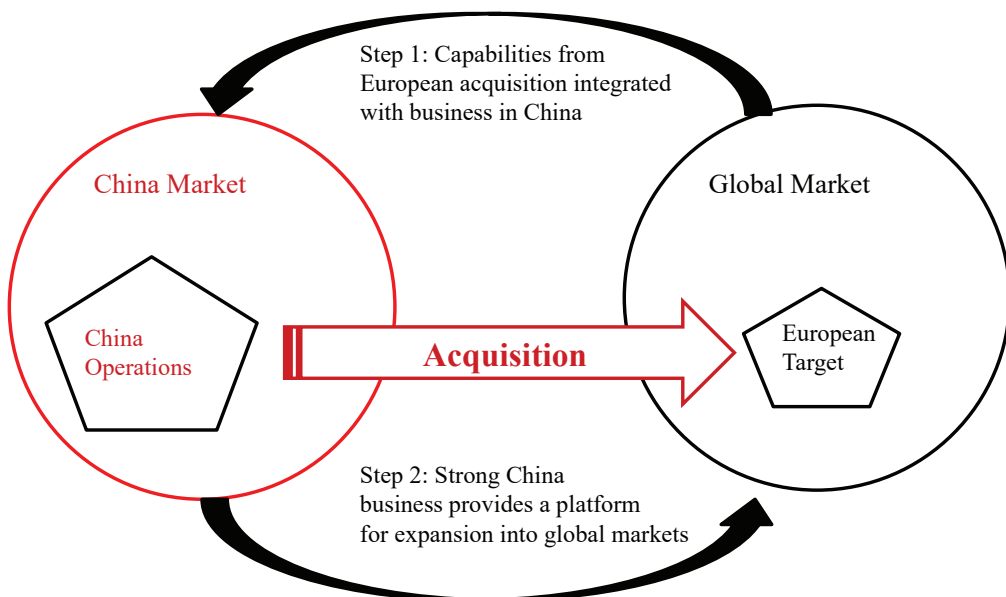
68 Deng, “Absorptive Capacity...”

Chinese acquirors have improved their capacity to understand the strategic assets they acquired by focusing their integration approach on preservation, including initiatives to retain existing staff, increase investment, and put in place organisational structures that allowed them to observe and learn about the capabilities of the companies they acquired in Europe.

Chinese acquirors subsequently focused their efforts on improving their capacity to combine and integrate the services of the newly acquired assets with existing advantages by creating processes to meld complementary sets of capabilities from China and Europe in order to fuel innovation. To facilitate this melding adjustments were often required to strategies, processes such as product development, and operating procedures back at headquarters.

Finally, Chinese acquirors improved their capacity to apply their new assets and capabilities for advantage by initially launching, proving and scaling up innovations first in the China domestic market. Thus we can observe a two-stage strategy: first, acquire foreign technology, know-how and capabilities, deploy these to build a winning position in the China market; second, use this as a newly powerful platform to expand into the global market (Figure 2) – a strategy dubbed the “double handspring”.⁶⁹ The second phase, expansion into foreign markets, often began with exploitation of new capabilities and advantages in emerging and developing markets that shared more characteristics with the Chinese environment than developed markets. Developed markets were entered only in a final stage of exploitation. This strategy can be expected to be superior because it enables the acquiror to make use of its extensive stock of existing knowledge and network of relationships that it often enjoys in its home market to smooth the process of learning to leverage new capabilities before facing the challenge of doing so in overseas markets where it suffers liabilities of foreignness.

Figure 2: The “Double Handspring” Strategy



69 Williamson and Raman, “The Competitive Advantage...”

Conclusion

The paper makes two main contributions to existing theory. First it underlines the importance of analysing absorptive capacity as a dynamic, multi-dimensional capability.⁷⁰ It demonstrates the mechanisms, hitherto under-researched, by which absorptive capacity can be enhanced in the context of strategic asset-seeking acquisitions. Second, it shows that strategic asset-seeking acquisitions abroad should not be seen as a means of challenger firms simply catching up with more established rivals by filling gaps in the portfolio of resources available to them, as most existing models imply. Instead our findings show that strategic asset-seeking acquisitions can provide key inputs into the process of creating new and distinctive sources of competitive advantages if they can be melded with complementary capabilities in a process of innovation. We have shown that this process of innovation is especially productive in the case of cross-border acquisitions involving companies from distant environments (as is the case for China and Europe) because it facilitates novel interaction of differentiated and dispersed knowledge. It is this diversity that provides a potent fuel for innovation by allowing combinations of knowledge that were previously thwarted by isolation.⁷¹ Examples from our case studies include bringing together advanced photonics technologies from Europe with Chinese product development and process innovation capabilities to deliver high-technology telecommunications equipment at lower prices and in higher volumes, and combining financial trading knowledge in London with insights into the treasury behaviour of Chinese corporates to develop new risk management tools for offshore trading of Renminbi.

The paper also has some important implications for managers and policy makers. Perhaps the most significant lesson is that absorptive capacity, one of the major weaknesses of many EMNEs with limited international experience and hence a major barrier to extracting value from foreign acquisitions, can be substantially improved by adoption of the right post-acquisition integration strategies. Our theoretical framework suggests the impact on three dimensions of absorptive capacity need to be considered when designing these strategies: how they help the acquiror understand the strategic assets acquired; how they promote the integration of the acquired assets with existing capabilities to create new competitive advantages; and how the exploitation of these new advantages in different markets can be sequenced to leverage existing experience and accumulate learning. The analysis of our case studies provides examples of how Chinese companies have designed post-acquisition integration initiatives to increase their absorptive capacity which may also be relevant to countries such as Brazil, India, Mexico, South Africa or Turkey with companies that have developed distinctive competitive advantages locally and wish to use these as a platform to become future successful multinationals.

By combining increasing acquisition activity in Europe with strategies to successfully increase their absorptive capacity it is also likely that Chinese companies might be able to close the technological and capability gaps with incumbent multinational competitors more rapidly than many expect (and in some cases leapfrog them with new product designs and offerings produced more efficiently and at large scale). Given the considerable evidence that more than half of acquisitions fail to deliver the economic benefits envisaged at the time of the transaction, many multinational competitors have taken comfort in the idea the Chinese companies are likely to be unsuccessful in using acquisitions to short-cut the lead time necessary to develop state-of-the-art technologies and learn world-class capabilities.

70 Teece, D. J., G. Pisano and A. Shuen. 1997. "Dynamic capabilities and strategic management," *Strategic Management Journal*, Vol. 18, No. 7, p. 509-533.

71 Doz, Y., J. Santos, J. and P. Williamson. 2001. *From Global to Metanational: How companies win in the global knowledge economy*, Boston: HBS Press.

The kinds of acquisitions most of the Chinese companies are now undertaking in Europe, however, are focused on companies with relatively few staff and minimal legacy assets that are generally a great deal easier to integrate than if the acquisition involved a large, poorly-performing company purchased for its historic market position and supposed brand equity that must be turned around. If strategies to improve absorptive capacity lead to effective integration of companies that may only be small- and medium-sized, but have strong technology, knowhow and specialist capabilities, can be delivered with similar success as in the cases examined here, then the innovation, quality and design gap compared with much older and more experienced multinationals will close much faster than their managers imagine.

These newly created advantages will be leveraged first in other emerging markets that share some similar characteristics with the competitive environment in China. For competitors from other emerging economies, such as Turkey, this will mean that Chinese companies will present increased competition not just on low cost, but also on the ability to launch offerings with higher quality and innovative technology and design, backed by new large-scale and efficient manufacturing capacity.

For policy makers this means that national competitiveness versus Chinese EMNEs is likely to rapidly decline unless it can be restored through higher rates of innovation, policies designed to improve local country-specific assets, and international trade and investment rules that assist local firms to reap the kinds of scale economies available to Chinese firms.

The findings also suggest an opportunity: that European firms with specialist technology, knowhow and capabilities may be able to leverage it more fully and achieve scale-up more quickly by partnering with Chinese companies. This may be a way to access the advantages available in China, including skills in value engineering, accelerated product development, manufacturing process innovation, the capability to reap scale economies through rapid scale-up, and distribution in China and some other emerging economies, without Europeans selling their companies outright.

Table 1: Case Study Findings for Chinese Acquisitions in Europe

Company	Acquisition Integration			Sources of Advantage	Market Exploitation	
	Retention	Investment	Interface		First Priority	Subsequent Moves
ChemChina Adisseo	<ul style="list-style-type: none"> Management retained and given added China role 	<ul style="list-style-type: none"> Additional investment in both China and Europe 	<ul style="list-style-type: none"> Acquiree management head new global business unit 	<ul style="list-style-type: none"> European technology and product knowledge combined with Chinese manufacturing and distribution expertise to create scale economies and cost efficiency 	<ul style="list-style-type: none"> China domestic market 	<ul style="list-style-type: none"> Other emerging markets Developed markets
Kingswood Brancher	<ul style="list-style-type: none"> Management and staff retained with expanded roles 	<ul style="list-style-type: none"> Upgrade R&D facilities in Europe Hire extra technologists 	<ul style="list-style-type: none"> Acquiree management report to CEO Joint product development 	<ul style="list-style-type: none"> Accelerated new product development of specialised inks for foodstuff packaging, security printing and “environmentally friendly inks 	<ul style="list-style-type: none"> China domestic and global markets 	<ul style="list-style-type: none"> N/A
ICBC Standard Bank London Trading	<ul style="list-style-type: none"> Management and staff retained with expanded roles 	<ul style="list-style-type: none"> Increased capital base Secondment of Chinese staff and new hires 	<ul style="list-style-type: none"> Strategic Cooperation Committee Joint operational teams 	<ul style="list-style-type: none"> Chinese customer relationships and strong capital base combined with London trading expertise and experience to provide integrated project finance services Build new capability for Renminbi offshore trading hub 	<ul style="list-style-type: none"> Chinese clients cross-border transactions Other resource-rich economies 	<ul style="list-style-type: none"> Other emerging markets Developed markets
Huawei CIP	<ul style="list-style-type: none"> Management and staff retained with expanded roles 	<ul style="list-style-type: none"> Upgrade R&D facilities Hire extra technologists 	<ul style="list-style-type: none"> Chinese engineer with global experience as interface Rotate Chinese engineers 	<ul style="list-style-type: none"> World-leading technology and R&D capability in photonics combined with Chinese capabilities in product design, process technology and scale economies 	<ul style="list-style-type: none"> China domestic and global markets 	<ul style="list-style-type: none"> N/A
BAIC Saab	<ul style="list-style-type: none"> Limited team of engineers came with acquisition 	<ul style="list-style-type: none"> Manufacturing plant relocation and expansion in China 	<ul style="list-style-type: none"> Acquiree designers and engineers seconded to China 	<ul style="list-style-type: none"> European design skills and key component technology combined with Chinese cost innovation, manufacturing and distribution expertise to create scale economies and cost efficiency 	<ul style="list-style-type: none"> China domestic market 	<ul style="list-style-type: none"> Other emerging markets

APPENDIX 1: CASE STUDIES

ChemChina-Adisseo

ChemChina is the largest basic chemical producer in China with business in six sectors: new chemical materials; basic chemical materials; oil processing; agrochemicals; rubber products; chemical equipment. It has 92 production and operation enterprises, and 24 scientific and research and design institutes.

In 2005, ChemChina acquired Franco-Belgian Adisseo for €400m. Adisseo designs, manufactures and distributes nutritional additives for the animal feed sector. With 29% global share, Adisseo was the second largest supplier of methionine used to boost animal growth.

Interviews were conducted during 2007 and 2008, supplemented by data from annual reports and press comment 2005-2013.

Kingswood-Brancher

Suzhou Kingswood Printing Inks, is a leading manufacturer of conventional printing inks in China. In June 2012 it acquired 100% of the equity in Brancher Co. headquartered in Tremblay-les-Villages, France, and its Polish subsidiary, Brancher Central Europe Co. In addition to medium-scale manufacturing of inks, Brancher specialised in the development of UV inks, liquid inks, specialty inks for packaging and high added-value products.

Interviews were conducted during 2013 and 2014, supplemented by data from annual reports and press comment 2011-2014.

ICBC-Standard Bank London Trading

Industrial and Commercial Bank of China is the world's most valuable and profitable bank with assets of over €1.4 trillion, 4.6 million corporate clients and over 200 million individual customers. Standard Bank is the largest bank in Africa. In 2008 ICBC purchased of a 20 percent stake in South Africa's Standard Bank Group and also entered into long-term strategic partnership to develop joint business in China, Africa and other regions around the world in areas including trade financing, international settlement, investment funds, commodities, global markets, and investment banking.

The case study used in this paper is the subsequent acquisition for €590 million of a 60% share of Standard Bank PLC, Standard Bank's London-based entity that trades currencies, commodities, stocks and bonds that took place in early 2014.

Interviews were conducted during 2012 and 2014, supplemented by data from annual reports and press comment 2011-2014.

Huawei-CIP

Huawei is a global leader in the design and manufacture of telecom network equipment, IT products and solutions, and smart devices are used in 170 countries and regions. With annual sales revenue of €31 billion in 2013, Huawei ranked 285th on the Global Fortune 500.

CIP, which stands for “Centre for Integrated Photonics”, traced its roots back to the 1960s when British Telecom (BT), then the telecoms division of the British Post Office, began research into optical communications. Located in Martlesham Heath (BT’s main R&D hub), near Ipswich in the United Kingdom, CIP developed a distinguished research track record; it was awarded several hundred patents in photonics.

In July 2011, CIP entered into a strategic collaboration agreement with Huawei, cemented by the sale of 40% interest in CIP’s equity to Huawei. In January 2012, Huawei purchased the remaining 60% stake and CIP became a wholly owned subsidiary.

Interviews were conducted during 2012 and 2013, supplemented by data from annual reports and press comment 2011-2014.

BAIC-Saab

Beijing Automotive Industry Holding Co (BAIC) is the fifth-largest domestic Chinese automaker, owned by the Beijing State-owned Assets Management Co. BAIC’s product offerings encompass many kinds of commercial vehicles, including: agricultural machinery, construction machinery, light trucks, and military vehicles. BAIC also manufactures and sells passenger cars under its own brands.

In December 2009 it acquired part of Saab Automobile from General Motors, comprising a package of technology, plant and the services of designers and engineers for €155 million. This included the intellectual property rights to three overall vehicle platforms, Saab 9-3 and Saab 9-5 technologies, two engine technologies, and two transmission systems.

The acquisition agreement allowed BAIC to produce and market the older Saab models, but not brand them as Saabs.

Interviews were conducted during 2010 and 2011, supplemented by data from annual reports and press comment 2008-2013.

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