The role of absorptive capacity in EMNEs’ Strategic asset-seeking internationalization:
A case study of four Chinese MNEs

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ABSTRACT

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Thesis Title: The role of absorptive capacity in emerging MNEs’ (EMNEs’) Strategic asset-seeking internationalization: A case study of four Chinese MNEs

Many studies have highlighted that EMNEs are utilizing strategic asset-seeking (SAS) internationalization as a means to upgrade their capabilities and build up their competitive advantages (Lecraw, 1993; Makino et al., 2002; Child and Rodrigues, 2005). However, no research has specifically examined or directly studied how a firm’s internal capability, with the particular focus on absorptive capacity, influences the outcome of EMNEs’ SAS international activities.

The overall aim of this research is to explore how absorptive capacity of EMNEs influences the outcome of their SAS internationalization, specifically focusing on two key dimensions of absorptive capacity, i.e. the ability to identify external assets, and the ability to acquire external assets.

Given the exploratory nature of this research, a qualitative multiple case study method was adopted. Altogether, four Chinese MNEs were selected with a total of 10 SAS events conducted by them respectively.

We clearly demonstrated the linkages between firms’ absorptive capacity and SAS outcomes. We found that the outcome of case companies’ SAS events were not effective in terms of gaining substantial assets, rather case companies can gain reputation and other benefits through the events. We found a new element comprising absorptive capacity, i.e. the ability to retain the acquired assets. We argued that it is a precondition for assimilation to happen. We demonstrated how firms’ absorptive capacity in the dimensions of identification, acquisition and the new emerged dimension, i.e. retention ability, together influenced their SAS outcomes. We also explored the underpinning factors for each dimension of absorptive capacity. An integrated model was developed.

Our study is the first to specifically explore the linkage between absorptive capacity and EMNEs’ SAS internationalization. We made several contributions to international business literature on SAS events and literature on absorptive capacity respectively. Specifically, we attempted to gain understanding of why EMNEs’ SAS strategies may or may not be fully effective, to enhance our understanding of absorptive capacity issues in emerging country contexts, and to achieve potential conceptual enrichment.
DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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going and never giving up, even when I was down. It would have been impossible for me to go through so many years of hard work without their support.
To my parents

----I will make you proud
Chapter 1

INTRODUCTION

1.1 Background

Emerging economies, characterized by the rapid national economic growth rate and promising markets (Luo and Tung, 2007), have been playing an increasingly important role in the world economies (Yiu et al., 2007; Yang, 2008; Luo et al., 2010). On one hand, emerging markets have attracted large amounts of inward foreign direct investment (FDI). In 2005, five of the biggest emerging economies (China, India, Russia, Brazil and Mexico) entered the top six most attractive global business locations (UNCTAD, 2005). On the other hand, apart from being FDI recipients, the firms from emerging economies have also been observed actively conducting outward foreign direct investment (Luo and Tung, 2007; Luo et al., 2010). It is recorded that the outward FDI made by emerging economic firms has risen from a negligible amount in the early 1980s to 11% in world stock in 2004 (UNCTAD, 2005).

According to the predominant traditional asset-exploitation internationalization theory which emphasizes exploitation of proprietary assets, mainly knowledge-based intangible assets that firms have possessed (Hymer, 1976; Caves, 1971), emerging multinational enterprises (EMNEs) are generally believed to possess few knowledge-based firm specific advantages to exploit (Rugman and Li, 2007) and thus are less able to compete in advanced markets (Yiu et al., 2007). However, increasing evidence has been found that emerging MNEs make investment in advanced markets and adopt aggressive entry modes, such as cross-border M&A, with the aim of gaining valuable assets (Lecraw, 1993; Tseng, 2007; Chen and Chen, 1998ab; Lu et al., 2011). The phenomenon therefore challenges traditional asset-exploitation internationalization theory (Makino et al., 2002). In this regard, scholars argued that an asset-seeking
perspective powerfully explains the motivation of EMNEs’ outward investment. According to the asset-seeking perspective, EMNEs are using outward investments as a springboard to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints they face at home (Luo and Tung, 2007). For the purpose of this study, we define strategic assets as both resources and capabilities (Amit and Schoemaker, 1993) that are a subset of the proprietary assets that bestow sustainable competitive advantages (Deng, 2009). These strategic assets can be marketing expertise, technological related knowledge, managerial capabilities, human capital or simply reputation for being established in a prestigious market (Chen and Chen, 1998b; Buckley et al., 2007).

In today’s fierce competitive environment, MNEs’ proprietary assets are mainly knowledge-based assets (Caves 1996; Yang and Kang, 2005), creating and augmenting knowledge are of strategic importance and imperative for firms, especially those that are from emerging markets, to compete successfully in the international market in the long term (Yang and Kang, 2005). In spite of the increasing importance of emerging economies in world outward investment, theoretical explanations for such activities are still limited (Mathews, 2006), except for a few notable articles on EMNEs’ asset-seeking through internationalization (Yiu et al., 2007). This research therefore attempts to enhance our understanding about EMNEs’ strategic asset-seeking through international expansions.

Recent literature suggests that an increasing number of Chinese firms have been actively involved in establishing joint ventures, acquiring local firms and establishing R&D centres in developed countries. Scholars have raised the proposition that the major reasons for these activities are to leverage valuable assets in host countries and build up their own capabilities (Child and Rodrigues, 2005) instead of traditionally exploiting their low cost advantage. They argue that much of China’s outward FDI is strategic-asset-seeking in nature (Child and Rodrigues, 2005; Deng, 2008; Rui and Yip, 2008). The fact that increasing numbers of Chinese firms are conducting
internationalization expansions through aggressive entry modes and by entering into advanced markets reflects the importance of strategic asset-seeking (SAS) internationalization to Chinese firms to meet their objectives of acquiring external knowledge and building up capabilities. A lot of literature has been conducted on Chinese firms’ internationalization (Young et al., 1996; Yeung, 2000; Wu and Chen, 2001; Taylor, 2002; Liu and Li, 2002; Wong and Chan, 2003; Hong and Sun, 2004; Wright et al., 2005), however, studies focusing on Chinese firms’ strategic asset seeking internationalization are still scarce. With active SAS international activities, China provides an optimal platform to study the international activities from an asset-seeking perspective. Enterprises from emerging economies would face some similar constraints, share similar characteristics, and have similar international experiences, therefore, as it is a major emerging economy, the study of Chinese enterprises’ SAS activities would provide insights for other EMNEs, and add to the understanding of EMNEs’ SAS activities.

1.2 Rationale of this study

The overall aim for this study is to explore the role of AC in understanding the outcome of firms’ SAS events. Specifically, we aim to study EMNEs’ strategic asset-seeking international expansion from firms’ internal capabilities, in particular, focusing on absorptive capacity (AC). This is motivated by the following factors:

1. Several streams of international business literature suggest the necessity to consider firms’ internal capabilities when studying SAS outward investment. The Investment Development Path (IDP) indicates the linkage between countries’ economic development and the pattern of outward investment it can generate. It suggests that strategic asset-seeking FDI generally occurs in countries that have reached a high level of economic development, e.g. countries in stage 4 and stage 5 (Narula and Dunning, 2000; Lee and Slater, 2007). This also implies that for strategic asset-seeking FDI to happen, firms need to possess a certain level of threshold
capabilities (Dunning, 1993; Chen and Chen, 1998b; Makino et al., 2002). Strategic asset-seeking FDI by firms from developed countries is therefore assumed to be a sensible phenomenon, since advanced MNEs have possessed proprietary firm-specific advantages which enable a successful outward FDI to happen (Lee and Slater, 2007). However, in the case of firms from China, which is in stage 3, their SAS activities are viewed as exceptional rather than the rule (Lee and Slater, 2007; Deng, 2009). Thus, a specific focus on firm’s internal capability is needed so as to understand Chinese firms’ SAS behaviour.

2. Literature on absorptive capacity suggests the close relevance of absorptive capacity to SAS activities.

Absorptive capacity has been stated to be a crucial firm factor, which explains the success level of knowledge transfer (Gil et al., 2009). The nature of strategic asset-seeking, i.e. to obtain valuable assets through external sources, has stated the relevance of absorptive capacity in the process of strategic asset-seeking FDI. One of the fundamental arguments that Cohen and Levinthal (1990) made is that absorptive capacity varies across different firms (Gil et al., 2009; Matusik and Heeley, 2005). Based on this statement, it becomes reasonable to consider how absorptive capacity influences emerging economic firms’ strategic asset-seeking through internationalization. In reference to advanced MNEs, it is reasonable to assume that they have possessed adequate absorptive capacity. In the case of EMNEs, they are generally considered to possess less sufficient advantages than advanced MNEs. We therefore cannot take it for granted. The question of how absorptive capacity influences their SAS activities is particularly worth studying.

3. There is a literature gap in extant studies on understanding strategic asset-seeking outward investment from firms’ absorptive capacity.

Existing studies in the field of strategic asset-seeking types of international investment have already indicated the necessity to combine absorptive capacity into firms’ strategic asset-seeking investment (Deng, 2009). However, no study has articulated the
linkage between these two notions. Extant studies on SAS outward investment focus on advanced MNEs and high technology industry, which implies the high level of absorptive capacity of these firms. Furthermore, studies on newly industrialized countries have also implied the importance of absorptive capacity in firms’ outward SAS activities (Chen and Chen, 1998b; Makino et al, 2002).

With regard to extant studies on Chinese firms, initial efforts have been conducted on providing rationales for Chinese firms’ strategic asset-seeking FDI. Institutional factors have been suggested as the driving forces for the firms’ outward internationalization (Hoskisson et al., 2000; Wright et al., 2005; Peng, 2006; Peng et al., 2008). These studies do not look at firms’ absorptive capacity, which may act as an underlining force to influence Chinese firms’ strategic asset-seeking activities.

The firms’ absorptive capacity is especially critical for understanding Chinese firms’ strategic asset-seeking FDI, this is because: as emerging economic firms, Chinese firms do not possess the traditional proprietary firm-specific-advantage, which is a key condition for a successful outward FDI. Given the importance of acquiring external valuable knowledge to Chinese firms’ growth and development, a deep study with regard to strategic asset-seeking through internationalization is of great importance to contribute to a more effective capability and asset building. Such a study would not only investigate Chinese firms but also firms that have already conducted or would probably conduct strategic asset-seeking through internationalization in the future.

To sum up, despite the necessity to integrate absorptive capacity into understanding EMNEs’ strategic asset-seeking activities, no studies have articulated the linkage between absorptive capacity and SAS internationalization activities. Therefore, this study aims to bridge this literature gap by exploring how absorptive capacity as firms’ internal capability underpins EMNEs’ strategic asset-seeking activities through internationalization.
1.3 Research question and objectives

In this study, we address the above literature gap by integrating absorptive capacity into understanding Chinese MNEs’ international strategic asset-seeking activities. The central research question of this study is:

*How does firms’ absorptive capacity influence the outcome of SAS internationalisation of emerging economy firms?*

To this end, we specifically focus on the following three objectives:

1: To empirically assess the effectiveness of SAS internationalization by appropriately selected Chinese MNEs.

2: To explore how absorptive capacity impacts the outcome of SAS internationalization of Chinese MNEs studied. This assessment will focus on two key dimensions of absorptive capacity, particularly on:

a) How the ability to identify/evaluate external knowledge/assets affected the outcome of SAS internationalization, and

b) How the ability to acquire external knowledge/assets affected the SAS internationalization.

3: Based on a synthesis of extant literature and empirical findings of this study, to arrive at a deeper understanding of the absorptive capacity influences on SAS internationalization of emerging country MNEs.

With regard to objective 1, despite the fact that empirical studies have been conducted to support the impression that many EMNEs, including Chinese MNEs, conduct strategic asset-seeking activities through international expansion, the outcome of their strategic asset-seeking activities is largely overlooked. Comparatively little evidence addresses the real effects of strategic asset-seeking internationalization for EMNEs. Questions like what assets can these EMNEs actually gain, can they get the assets they aimed for, remain unexplored. The outcome of these strategic asset-seeking activities, i.e. whether or not they can really gain these assets, is a question worth studying,
because this is the means by which EMNEs can build up their capabilities. As the aim of their international expansion is in part to gain assets and build up their competitive advantages, the examination of the results of these strategic asset-seeking activities will contribute to a holistic understanding about EMNEs’ strategic asset-seeking outward investment.

With regard to objective 2, the impact of absorptive capacity on firms’ SAS outcome, the necessity to dig out the internal capabilities, has not received enough attention. It is therefore important to examine the effect of firms’ capabilities on their strategic asset-seeking activities. Zahra and George (1996) disaggregate the role that absorptive capacity plays in the external knowledge-gaining process into acquisition and assimilation, transformation and exploitation. The research goes just one step further by specifically focusing on how AC influences firms to identify and acquire external assets, i.e. the process before formal assimilation. The assimilation, transformation and exploitation process are beyond the scope of this study. It is important to the understanding of absorptive capacity to examine knowledge creation separately from longer linked performance outcomes (Matusik and Heeley, 2005). We examine the outcome before assimilation by two criteria: the effectiveness of identification, i.e. if they target the right valuable assets, and the effectiveness of acquisition, i.e. if they acquire the assets successfully before the ensuing assimilation, transformation and exploitation stage.

With regard to objective 3, through answering the research question, we can enhance our understanding of absorptive capacity issues in emerging country contexts, and achieve potential contributions to existing knowledge.

1.4 Research design

The role of absorptive capacity in Chinese enterprises’ SAS internationalization lacks rich details in the literature. The phenomenon is conventional, complex and difficult to
control for all variables. Based on these characteristics, this research calls for the use of an exploratory case study research design (Yin, 1989; Silverman, 2000). Exploratory study is often used for theory generation (Eisenhardt and Graebner, 2007). It can better understand a problem when few sophisticated theories have been proposed in this area (Mendenhall et al., 1993; Wright, 1996). Case study is most suitable to answer ‘why’ and ‘how’ questions; this technique has been widely used in the initial exploratory stages of new phenomena (Yin, 1981, 1988). It is an appropriate method when studying contemporary issues with little or no control over behavioural events. The case study can also highlight the problems that are faced in practice, therefore give the author a deep understanding about the theories and detailed examination of the phenomenon. Four Chinese MNEs are selected as the cases. Both within case and cross case analysis will be conducted to demonstrate the influence of absorptive capacity. By adopting multiple cases, it can provide sufficient information and enhance the generalization of the findings to a larger extent.

1.5 Structure of the thesis

Chapter 2 and chapter 3 comprise the literature review section of this thesis. The main function of the literature review is to demonstrate the necessity to integrate absorptive capacity into understanding Chinese MNEs’ SAS internationalization. Chapter 2 focuses on the relevant international business literature. The two perspectives of internationalization, i.e. asset-exploitation and asset-seeking, will firstly be briefly presented. Then we will take a special look at strategic asset-seeking types of internationalization. The investment development path will also be reviewed as it implies the relevance of strategic asset-seeking types of FDI and absorptive capacity. Then existing literature on strategic asset-seeking by firms from advanced markets, Newly Industrialized Economies (NIEs) and China will be reviewed. The above literature has all indicated absorptive capacity as the key firm-specific capability that underlies strategic asset-seeking internationalization.
Chapter 3 is devoted to providing a detailed literature review on absorptive capacity. We pay special attention to the possible dimensions of the construct, which are regarded to be closely related to strategic asset-seeking activities. Determinants of absorptive capacity will also be reviewed. This stream of literature provides guidance for our empirical analysis.

In chapter 4, the methodological issues of this study will be dealt with. An inductive qualitative case study approach will be employed. The rationale for the choice of this methodology will be justified. Four in-depth case studies will be conducted, based on interviews as the primary data collection method. The issues regarding data analysis will also be demonstrated. Finally, the validity and reliability issues of this study will be touched upon.

Chapter 5 to chapter 9 comprises the data analysis section. Both within-case analysis and cross-case analysis will be conducted in this thesis. Four individual within-case analyses will be conducted in Chapter 5 to chapter 8. The same structure will be employed to analyse each strategic event. First, each event will be briefly described, then the outcome of each event revealing what benefits have actually been gained will be presented, followed by an analysis of the underlying factors of each event. These chapters pave the way for doing cross-case analysis. In chapter 9, we seek similarities and differences among these cases according to different key themes which emerged from within-case analysis chapters. The findings will be drawn up in chapter 9.

Chapter 10 is devoted to discussing the meaning of the findings in the stock of the broad knowledge. The role of absorptive capacity in the process before formal assimilation and the influence on the effectiveness of SAS events by Chinese MNEs are discussed. Propositions will be drawn up based on these discussions. In this chapter, how the findings contribute to the international business knowledge and in what specific aspects will be manifested.
In the final chapter, i.e. chapter 11, the conclusion will be drawn based on the above analysis and discussion. Specifically, the answers to the initial research questions raised in chapter 1 will be provided. The contribution of this study to the literature will be presented. Limitations of the study will be addressed. Finally, we will recommend future research areas.
Chapter 2

LITERATURE ON STRATEGIC ASSETS-SEEKING INTERNATIONALIZATION

2.1 Introduction

This chapter and the next constitute the literature review part for this thesis. The function of the literature review in this thesis is to provide theoretical underpinning for the necessity to integrate absorptive capacity to understand Chinese firms’ SAS internationalization. Several streams of literature are deemed to be relevant. In this chapter, I will specifically elaborate on international business literature on SAS and bring in the relevance of absorptive capacity in asset-seeking foreign investment. The next chapter aims to provide a detailed review of absorptive capacity.

In order to understand the theoretical development of emerging MNEs’ strategic asset-seeking activities, an overview of internalization theories on asset-exploitation and asset-seeking will firstly be provided, then the investment development path (IDP), will be reviewed to understand the position of emerging economic MNEs’ SAS FDI. IDP indicates the relationship between the occurrence of strategic asset-seeking FDI and the country’s economic development level. It further implies the necessity for firms to possess certain levels of capabilities, in particular absorptive capacity, to conduct strategic asset-seeking foreign investment. Moreover, Uppsala model will also be reviewed since it generates insights for us to understand the linkage between IDP and EMNEs’ SAS internationalization. Finally, existing studies on strategic asset-seeking types of internationalization will be reviewed, according to the different nature of investors including MNEs from developed countries (DC MNEs), investors from newly industrialized economies (NIE MNEs), and Chinese enterprises. All of these bodies of literature point to the relevance of the focus of this study, i.e. firms’
absorptive capacity in firms’ SAS through international expansions.

2.2 Two perspectives of international expansion

Well-documented research and studies have been conducted in the field of international business, which lead to a vast body of knowledge and various theoretical approaches to demonstrate the behaviour of multinational corporations in their process of internationalization (Oesterle, 1997). Among these studies, the rationale of the firms’ outward investment has been well studied. Generally, two types of foreign investment are acknowledged, i.e. asset-exploitation and asset-seeking (Tseng, 2007).

In the conventional vein of international business literature, the asset-exploitation perspective has been largely adopted, which assumes that firms’ primary motive to engage in FDI is to exploit their existing competitive advantages and generate economic rent (Dunning, 1993; Dunning and Narula, 1996, 2004; Dunning and Lundan, 2008). In contrast, the asset-seeking perspective views foreign investment as a means for firms to create capabilities through international expansion (Cantwell and Narula, 2001; Dunning, 2006ab). In the last decade or more, evidence shows that there is a trend that MNE activity is increasingly motivated by asset-seeking, i.e. acquiring valuable assets and strengthening their competitive advantages instead of exploiting their existing assets (Buckley et al., 2007; Dunning and Lundan, 2008). It also suggests that nowadays, MNEs may choose multiple motives. These two general types of motivations are complementary to contribute to a holistic IB literature on foreign investment (Tseng, 2007). In this section, these two perspectives will be reviewed respectively, so as to have a holistic understanding about the position of EMNEs’ asset-seeking internationalization in international business literature.

2.2.1 Asset-exploitation perspective

Mainstream theories generally hold an asset-exploitation perspective, which assumes that for FDI to take place, firms should possess certain types of proprietary resources
to exploit in the host country. The asset-exploitation perspective focusing on firm’s ownership advantage is considered to be advantageous and can generate competitive advantages over those possessed by indigenous competitors (Caves, 1971; Hymer, 1976; Dunning, 1993). The proprietary assets are mainly intangible assets, such as knowledge related assets, firm’s ability to innovate, a specific property (trade mark or brand), knowledge and skills of the firm’s team of employees, and other inputs. Among these assets, technological capabilities and marketing expertise are considered as two primary proprietary advantages (Caves, 1971).

Dunning (1988) uses the Eclectic Paradigm, also called the Ownership-Location-Internalisation paradigm, to explain the factors that influence a company’s international investment decisions. In this influential Eclectic Paradigm, he pointed out three conditions which determine international production, i.e. firms’ ownership advantages, host country’s locational advantages and the internalization advantages. Dunning (1993) suggested that the firms’ possession of ownership specific advantage is one of the key requirements for FDI to take place. Firms must possess certain advantages, specific to the nature of their ownership in order to compete with foreign firms. These advantages, also called competitive or monopolistic advantages, must compensate the costs of setting up and operating a foreign value-adding operation.

Firms from different countries possess different assets (Wells, 1983). Developing markets are generally considered as small markets, having small demands for a wide range of industrial products, abundant labours and scarce foreign inputs. These characteristics mean that firms from these countries have different ownership specific advantages compared with their western counterparts. Previous research (Lecraw, 1993) suggests that MNEs from developing countries are usually small scale and small volume plants; many of them use multipurpose equipment which can be used to make various products or can be easily adapted to produce other products. Thus they are flexible and adaptive to the change of market demand; due to abundant labour
resources in their home market, these firms are labour-intensive; finally, these firms lack foreign investment, they develop skills of local resources or by finding substitute resources. Therefore, the third world multinationals’ firm-specific advantages were in product and process technologies, in line with host countries’ environment (Lall, 1984; Wells, 1983; Lecraw, 1977; 1981).

In the light of the asset-exploitation perspective, MNEs tend to invest in markets where their firm-specific assets can be advantageous over local firms. Therefore, in the traditional international business field, research mainly focuses on MNEs from developing countries making investment in other developing countries. In order to exploit firms’ competitive advantages, firms from developing countries will go to host countries that are even less developed than the firm’s home country in order to exploit their competitive advantages compared with local firms. Firms with inherited comparative advantages (such as natural resources, low cost labour etc.) will go to developed countries where local firms do not possess these kinds of advantages.

Hoesel (1999) conducts a study about the ownership specific advantages of Asian MNEs based on four sample cases from Asia. They are investing in developing countries, with their ownership advantages, which are suggested to be adaptive technology and better market knowledge about developing countries. This view is consistent with Luo’s (1999) argument that compared with western MNEs, Asian MNEs who are investing in developing markets are inferior in technological and organizational competences but superior in host-country specific knowledge, such as marketing tactics and environment familiarity. Condo (2000) studies the international advantages of MNEs from Latin America. He indicates that firms from Latin American with inherited comparative advantages (such as natural resources, low cost labour etc.) will go to developed countries where local firms do not possess these kinds of advantages. Moreover, firms from Latin America with competitive advantages will go to developing countries where the markets are even less developed than firms’ home markets in order to develop a superior position.
Traditional theories adopted an asset-exploitation perspective and stressed firms’ proprietary assets as the prerequisite to invest abroad (Hymer, 1960, 1976; Caves, 1971; Dunning, 1981ab). Based on the asset-exploitation perspective, EMNEs are generally considered to have less superior firm specific advantages, which are not sufficient to entail firms to generate competitive advantages when investing in developed countries. However, nowadays more and more firms from less developed countries have been observed making investment in advanced markets (Kumar, 1998; Lecraw, 1993; van Hoesel, 1999; Deng, 2007). The conventional asset-exploitation theory is therefore less powerful in interpreting the FDI from developing countries in developed countries (Chen and Chen, 1998b; Makino et al., 2002). It has been argued that firms from emerging markets enter into developed markets for reasons other than asset exploitation (Yiu, et al., 2007). A new perspective is called for to understand EMNEs’ outward investment in advanced markets.

2.2.2 Asset-seeking types of internationalization

Dunning classified four types of foreign investment, viz, natural resource seeking, market seeking, efficiency seeking and strategic assets’ seeking (SAS). SAS type of foreign investment is different from the other three in that the nature of SAS FDI is asset-seeking, while the other three are asset-exploiting (Hymer, 1976; Caves, 1971; Dunning, 1993). Dunning (1993) defined strategic asset seekers as: MNEs ‘which engage in FDI, usually by acquiring the assets of foreign corporations, to promote their long-term strategic objectives—especially those of sustaining or advancing their international competitiveness.’ (Dunning, 1993: P60). This definition of strategic asset seeking FDI has been widely cited in related studies. For example, Deng (2007: P74) borrows from Dunning’s definition and states that ‘strategic asset-seeking FDI is driven by the firms’ needs to access complementary resources, notably various kinds of knowledge, in order to upgrade their own capabilities.’

According to the definition, the asset-seeking perspective argues that international
expansion can also be viewed as a means to acquire resources and capabilities that
tfirms need in the host country, in order to build up their competitive advantages in the
long term (Cantwell, 1989; Dunning, 1993; Wesson, 1998; Lundan and Hagedoorn,
2001; Makino et al., 2002; Shan and Song, 1997; Deng, 2007). Therefore, firms with a
strategic asset seeking intention would aim to learn, or gain access to, the necessary
strategic assets available in the host country (Makino et al., 2002). The assets MNEs
aim for are various kinds of knowledge and other mobile assets and capabilities that
are perceived by MNEs to be valuable in terms of either strengthening their own
competitive position or weakening that of their competitors (Buckley et al., 2007).
These include ‘market intelligence, technological know-how, management expertise,
or simply reputation for being established in a prestigious market’ (Chen and Chen,

This perspective is particularly helpful in understanding EMNEs’ outward investment
in advanced markets (Makino et al., 2002). Increasing evidence has been found that
firms from less developed countries are actively conducting investment in developed
countries in order to gain advanced technology, marketing and management expertise
(Lecraw, 1993; Makino et al., 2002). These firms are not just motivated to exploit their
particular forms of advantages but also to gain assets in a developed country that are
superior or not available in their home countries, which is asset-seeking in nature.
However, one has to be clear that firms can conduct internationalization activities
pursuing several aims simultaneously (Dunning, 1993). Market-seeking FDI with the
aim to penetrate the local markets of host countries (Wadhwa and Sudhakara, 2011)
and strategic asset-seeking with the aim to acquire assets are in many cases concurrent
rather than exclusive. Therefore, when studying EMNEs’ strategic asset-seeking
internationalization, one cannot exclude other types of investment motivations, such as
market-seeking.

Above all, the asset-seeking perspective is different from the traditional
asset-exploitation perspective in three aspects. Firstly, the asset-exploitation
perspective emphasizes the exploitation of existing proprietary assets in overseas markets (Dunning and Narula, 1996). However, the asset-seeking perspective does not require firms to possess greater advantageous firm specific advantages than local firms as the precondition for FDI to happen, rather it emphasizes the possibility that FDI is driven by the quest for new ownership advantages (Lall, 1996). Secondly, traditional internationalization does not attach great importance to strategic resources embedded in host countries; in contrast, asset-seeking types of investment requires investors to tie up resources in the host country with their own resources, thus the existence of strategic resources in overseas markets is essential to their investment (Chen and Chen, 1998b). Thirdly, the traditional approach views FDI as generating economic rents, while the asset-seeking perspective views FDI as a means for firms to build up capabilities in the long term. Consequently, whether MNEs gain valuable assets should be a better measurement when evaluating asset-seeking types of investment.

Therefore, the asset-seeking perspective is more suitable to explain MNEs from less developed countries (LDCs) to make investment in advanced countries.

### 2.3 Strategic asset-seeking activities and Investment Development Path

Another useful literature to facilitate our understanding about the position of emerging economic MNEs’ strategic asset-seeking types of FDI is the Investment Development Path (IDP) theory. IDP looks at strategic asset-seeking types of investment at country’s level, it also implies the requirement on firms’ internal capabilities so as to make strategic asset-seeking outward investment happen. Through a brief review of IDP, we can better understand the necessity to integrate absorptive capacity at firm level into understanding Chinese MNEs’ strategic asset-seeking outward investment.
2.3.1 A general review of IDP

IDP was first introduced by Dunning, postulating a systematic and dynamic relationship between a country’s international investment positions i.e. net foreign direct investment and its level of economic development (Dunning 1993; Dunning and Narula, 1996; Buckley and Castro, 1998). The investment development path divides countries into five stages based on their economic development level. It suggests that different patterns of internationalization occur in countries at different economic levels (Sim and Pandian, 2003). The pattern of FDI which a country generates and receives is determined by the configuration of OLI, i.e. local firms’ ownership advantages, the country’s locational advantages and local and foreign firms’ internalization advantages (Dunning and Narula, 1996; Lee and Slater, 2007: P242; Dunning and Lundan, 2008). As the countries’ economic level and created assets of their resources and capabilities change, the pattern of inward and outward FDI will also change systematically. Dunning (2008) postulates the role of four different motives of foreign investment, i.e. natural resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking, in countries’ investment development path, and suggests that different stages of the IDP are associated with the different relative importance of the four motives for FDI. Table 2.1 below illustrates the stages of economic development and the corresponding pattern of inward and outward investment.
Table 2.1: The stages of economic development and the responding pattern of inward and outward investment

Source: Adapted from Dunning and Lundan (2008)

<table>
<thead>
<tr>
<th>Stage</th>
<th>Balance of I and O investment</th>
<th>Characteristics of inward (I) investment</th>
<th>Characteristics of outward (O) investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 1</td>
<td>Little I and negligible O; low intra-industry trade and investment</td>
<td>Resource based</td>
<td>Export supporting; limited resource-seeking investment; agricultural and primary goods sectors; small-scale craft and labour-intensive manufacturing, especially textiles and clothing</td>
</tr>
<tr>
<td>natural resource based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stage 2</td>
<td>Increasing I and limited O; Low intra-industry investment, increasing intra-industry trade</td>
<td>Still resource based, but in more capital-intensive sectors; Low-cost labour exploiting</td>
<td>Resources- and market-seeking investment in other developing countries; some 'escape' investment to developed countries; mostly regional Greenfield investment; natural resource investment (incl. agriculture and aquaculture); light manufacturing employing established technologies; some service investment, e.g. tourism</td>
</tr>
<tr>
<td>investment driven</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stage 3</td>
<td>O increasing faster than I; Increasing intra-industry trade and investment</td>
<td>In activities supplying more sophisticated products for domestic market, or requiring more skilled labour</td>
<td>All kinds of investment including efficiency-seeking and some asset augmenting investment; mostly still regional and Greenfield, but some M&amp;As; mass-produced differentiated consumer goods, e.g. electrical products, clothing; more service investment, e.g. construction, banking</td>
</tr>
<tr>
<td>innovation driven</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stage 4 and 5</td>
<td>Substantial I and O; O often exceeds I; substantial intra-industry trade and investment; Balance between I and O fluctuates.</td>
<td>Increasingly efficiency-seeking and asset-augmenting investment</td>
<td>Increasingly efficiency-seeking and asset-augmenting investment; regional and global; more M&amp;As and alliances; investment in knowledge-intensive sectors, e.g. ICT, biotechnology, nanotechnology, and high value-added services, e.g. consultancy; restructuring of global value chains</td>
</tr>
<tr>
<td>increasing knowledge and service intensity; knowledge economy</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Countries in Stage 1, usually the least developed countries, lack created assets and competences. They are deficient in locational advantages except for natural resources, thus attract limited inward FDI in the aspect of natural resource-seeking and generate negligible outward FDI, as indigenous firms have virtually no ownership advantages to engage in outward FDI. Inter industry trade is the main international activity that these countries are involved in.

In stage 2, along with increasing domestic incomes, countries’ indigenous capabilities and institutional infrastructure are improved. They are able to attract some market-seeking FDI, apart from natural resource-seeking FDI. A growing importance of investment capital in value-added activities is the key theme in this stage, e.g. investment in more capital intensive sectors. At this stage, outward investment emerges, however, it is still limited and can be negligible. Outward investments from domestic firms are focused on resource seeking and market seeking.

As the economy developed, when they enter into the third stage, in which countries are approaching an industrialized and more mature economy and higher income level, the quality of countries’ indigenous skills and managerial talent are enhanced. Countries are able to attract foreign investment, mostly market seeking and resource seeking in nature, in higher value-added stages. Meanwhile, indigenous firms begin to generate their O advantages. They are considered to possess a certain level of technological capabilities, sufficient to compete with foreign investors in the domestic market. At this stage, outward investment will increase with the destinations to stage 1 and 2 countries for natural resource-seeking or market-seeking types of investment. Meanwhile, a few outward direct investments can be spotted with the destinations to stage 4 and 5 countries with the aim of seeking markets or acquiring strategic assets so as to protect or upgrade their ownership advantages (Dunning and Narula, 1996), however the FDI is mostly still regional (Dunning and Lundan, 2008). In this stage, they switch emphasis from investment-driven to innovation-driven growth. An acceleration of outward FDI and a declining inward FDI can be found in this stage.

Stages 4 and 5 are relevant to developed industrial countries. In these stages, indigenous firms have developed created assets and competences. In stage 4, outward FDI is increasing with the tendency to equal or exceed inward FDI. Finally, in stage 5,
inward and outward FDI are roughly equal. In these two stages, countries will attract efficiency-seeking and asset-seeking investment, and indigenous firms will increasingly engage in efficiency-seeking and asset-seeking outward investment in knowledge-intensive sectors.

### 2.3.2 EMNEs’ strategic asset-seeking FDI and IDP

IDP looks at different types of investment at country level, it also implies the requirement on firms’ internal capabilities to make different types of foreign investment happen. Chen and Chen (1998b: P16) argued that ‘*Resource-based FDI is a primitive form in an early stage of firms’ globalization which has the lowest requirement on firms’ ownership specific advantages*. When countries mainly possessed resource-based, labour-intensive locational advantages, they are able to conduct resource-based FDI (Dunning and Narula, 1994). However, the remaining types of FDI are considered to be a higher order investment (Chen and Chen, 1998b). For strategic asset-seeking FDI to take place, firms should possess ‘*a certain threshold level of created assets*’ (Dunning, 1993). Chen and Chen (1998b: P17) adopted a strategic linkage perspective to explain that strategic asset-seeking requires investors to possess technological or organizational capabilities so as to ‘*make linking to a foreign country’s complementary capabilities a viable and beneficial endeavour*’. This implies that investing firms should at least be able to identify and target external assets which are valuable and complementary to their own assets so as to link the foreign country’s capabilities with their own assets.

As indicated by IDP, strategic asset-seeking investment is considered generally to happen in stage 4 and 5 countries, or to a lesser degree in stage 3 countries (Dunning and Narula, 1996; Chen and Chen, 1998b; Lee and Slater, 2007). As most developed countries are in stage 4 or stage 5 (Lee and Slater, 2007), it is therefore reasonable to assume that these firms have had a high level of firm ownership advantages which benefited from their home country environment capacity, which enables them to conduct international strategic asset-seeking activities. However, for firms from less developed countries, their strategic asset-seeking through outward internationalization could not be taken for granted.
China and other major developing countries are generally regarded as in stage 3. Although there are some developing countries in stage 3 conducting outward strategic asset-seeking internationalization, e.g. Chinese firms’ outward investment in advanced markets are found to be driven by seeking assets (Dunning and Narula, 1996), this should be viewed as exceptional (Lee and Slater, 2007; Deng, 2009). For example, Chinese firms’ outward FDI still mainly focuses on South and East Asia and, to a lesser extent, Africa. In terms of stock of China’s outward FDI, the shares for North America and Europe were each below 3% by the end of 2006 (Morck et al., 2008). This further supports the arguments that market-seeking investments still account for much of the outward MNE activity from developing countries, and it is not a common phenomenon for emerging economies’ MNEs to engage in high level international activities (Hong and Sun, 2006; Dunning and Lundan, 2008).

With regard to this, Lee and Slater (2007) pointed out that firms from developing countries undertaking strategic asset-seeking FDI do not do so because their home countries have reached a level of economic development that is high enough to generate strategic asset-seeking FDI, but because of firms’ high desire to upgrade their capabilities. Entrepreneurship has been identified as a major force in initiating changes or taking risky activities in EMNEs (Nolan and Yeung, 2001; Luo and Tung, 2007). However, whether these firms possess the absorptive capacity to benefit from the opportunity remains unclear.

Therefore, IDP indicates that MNEs from less developed countries conducting strategic asset-seeking internationalization activities should be viewed as exceptional. Given that seeking assets through outward internationalization has become increasingly important among medium income and fast-growing industrializing countries (Dunning and Narula, 1996), it is therefore of significance to explore the firm specific capabilities underlying EMNEs’ strategic asset-seeking investment.

2.4 Strategic asset-seeking internationalization and the Uppsala model

In this section, key concepts from the Uppsala model will be reviewed, since it can not only strengthen the linkage between IDP theories and EMNEs’ SAS internationalization, but also generate insights to understand SAS internationalization
from a broader view. Based on empirical observation of four Swedish companies’ internationalization process, the Uppsala model was developed to explain firms’ internationalization characteristics (Johanson and Vahlne, 1977). Four core elements established the Uppsala model, i.e. market knowledge and resource commitment of firms, which are categorized as the state aspects, and commitment decisions and current activities which are categorized as the change aspects. The state aspects refer to the firm’s level of market knowledge and commitment at a certain stage of its internationalization process. The change aspects represent an ongoing process of current business activities and current commitment decisions. These two aspects interact with each other. The state aspects of the firm will influence the change it will make, and in turn, the alteration in the change aspects will affect the firm’s future state aspects in terms of market knowledge and resource commitments (Andersen, 1993).

Figure 2.1: Four elements of Uppsala model
Adapted from: Andersen (1993)

According to the model, an organization gradually increases its involvement in entering into new foreign markets. This can be manifested in two aspects, viz. market choice, and entry mode choice.

In terms of market choice, the notion of psychic distance is introduced to explain firms’ market choice at the operational level. The psychic distance is defined as: ‘…the sum of factors preventing the flow of information from and to the market. These include differences in language, education, business practices, culture, and industrial development.’ (Johanson and Vahlne, 1977, p. 51). It is argued that firms first enter into neighboring markets where they have low psychic distance. When their international
experiences increase, they will tend to enter new markets with greater psychic distance. Psychic distance is also coupled with geographical distance in most cases (Johanson and Vahlne, 1990). That is to say, firms tend to firstly enter into markets that are culturally and geographically proximate to the home country.

In terms of entry mode choices, Johanson and Weidersheim-Paul (1975) found an ‘establishment chain’ of the four case companies, i.e. firms’ overseas expansion starting from no regular export activities, then export via independent representatives (agents), followed by establishing a sales subsidiary in the foreign market, and finally establishing overseas production/manufacturing. This describes firms’ choices of foreign market entry modes, i.e. firms tend to invest in new markets by employing low resource commitment modes at the beginning, then gradually employing high resource commitment modes.

This incremental international process is the result of an interplay between the development of knowledge of the foreign markets and an increasing commitment of resources to those markets (Johanson and Vahlne, 1990). Lacking knowledge of a particular country, and knowledge in general, constrains firms’ internationalization (Forsgren, 2002). Nonetheless, this knowledge can be acquired through experiential learning. The Uppsala model suggests that a firm’s own operation in a market is the main channel for knowledge acquisition. This is because market knowledge is mainly tacit, which could not be transferred but only be gained through experiential learning (Johanson and Vahlne, 1990). Consequently, international experience, measured by the number of years the firm has internationalized and the number of foreign markets that the firm entered, has been one of the main indicators to reflect firms’ market knowledge (Luo and Peng, 1999).

Firms’ commitment of resources to certain foreign markets reflects an organization’s perceived uncertainty (Huber, 1991). The higher the uncertainty is, the less the resource which is devoted to that market. By learning from its own operations in a certain market, the firm acquires tacit knowledge that reduces the perceived uncertainty about that market. Thus, there is a negative relationship between experiential learning and incremental behaviour (Forsgren, 2002). Experiential learning reflects the need for tacit market knowledge, because such knowledge is difficult to acquire through other means
of learning. This in turn will reduce the need for incremental behaviour. Consequently, the more knowledge a firm has about the market, the less the risk of making mistakes by taking large steps.

Therefore, the Uppsala model states that firms’ internationalization is constrained by firms’ knowledge of the target country. Firms are suggested to become involved in international expansion by steps that fit their knowledge base. Firms would choose to invest successively in countries with increasing psychic distance, and to increase resource commitment to the foreign market when their experiences and knowledge increase. Accordingly, firms with few or no international experiences are considered not be able to, or willing to take the risk of investing in countries with big psychic distance by means of high resource committed entry modes, such as wholly owned subsidiaries, M&As.

This underpins the IDP model at the micro level, and strengthens the linkage between IDP and EMNEs’ SAS internationalization. IDP states the relationship between a country’s development stage and the types of internationalization it can make at macro level, while the Uppsala model explains the relationship between a firm’s degree of commitment in the foreign market and the firm’s market knowledge at micro level. According to IDP, SAS internationalization usually happens in firms from stage 4 and stage 5 countries. It implies a short psychic distance between firm’s home country and host country, which are generally developed countries. Meanwhile, it is sensible to consider firms from stage 4 and stage 5 countries to have already accumulated market knowledge which can reduce their risks of undertaking high resource commitment activities in destined countries. However, in reference to firms from emerging economies, their SAS internationalization chooses to enter into host markets with high psychic distance countries and using aggressive entry modes. Therefore, according to IDP and the Uppsala model, Chinese firms’ strategic asset-seeking internationalization is considered to be jumping stages both at the country level and firm specific knowledge level.

Limitations have been pointed out regarding the implication of the Uppsala model to explain stage jumping internationalization (Oviatt and McDougall, 1997). One of the core claims in the Uppsala model is that a firm’s internationalization follows an
incremental process, because the firm needs to gain necessary foreign market knowledge that could only be gained through its own operation in that precise market. It only acknowledges experiential learning but excludes other possible types of learning (Forsgren, 2002). Scholars argued that firms can gain knowledge, even tacit knowledge, without experiencing it. One of the important means is by accessing inter-organization networks (Arenius, 2005; Mitgwe, 2006). Evidence has been found that a business network relationship could help the firm to acquire and assimilate tacit knowledge from different actors in the network, to access and interpret the market information, locate foreign partners, and therefore accelerate their internationalization process (Eriksson et al., 1998; Kraatz, 1998; Lane and Lubatkin, 1998). Besides, firms could also gain market knowledge from conducting focused searching for particular information they needed rather than conducting investment themselves (Forsgren, 2002). Imitating other firms’ behaviour will also cause firms to undertake stage-jumping internationalization (Arenius, 2005; Mitgwe, 2006).

By combining other types of learning, especially gaining market knowledge from business networks, the Uppsala module can help us to understand the EMNEs’ SAS events in a broader view.

2.5 Extant studies on strategic asset-seeking FDI

Strategic asset-seeking is not a recent phenomenon. Numerous studies have been conducted on MNEs’ asset-seeking foreign investment, however, the main focus has been on investors from developed countries and technology-related assets as the major sought-after assets. For example, evidence has been found that Japanese firms’ FDI in high-technology sector in the US market is partly motivated by sourcing US technologies (Kuemmerle, 1999; Berry, 2006; Kogut and Chang, 1991; Hennart and Park, 1993, 1994). European firms establishing joint ventures in the US market were mainly attracted to US locational advantages and motivated by gaining access to technological and skill related intangible assets of US enterprises (Mutinelli and Piscitello, 1998). Apart from investment from advanced MNEs, there are also a few studies on strategic asset-seeking internationalization from NIE MNEs and developing countries’ MNEs.
For the purpose of this study, I will review existing literature on strategic asset-seeking types of foreign investment based on the nature of investors, i.e. investors from developed countries (DCs), investors from newly industrialized economies (NIEs), and investors from China. Table 2.2 summarizes existing studies on strategic asset-seeking activities through internationalization. After reviewing these studies, several features can be identified, which would help us to understand current literature on strategic asset-seeking types of internationalization and the importance of integrating absorptive capacity into strategic asset-seeking through internationalization.
Table 2.2: A summary of existing studies on strategic asset-seeking activities through internationalization

<table>
<thead>
<tr>
<th>Authors</th>
<th>Research context</th>
<th>Research Aim</th>
<th>Method</th>
<th>Conclusion</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kuemmerle, 1999: <em>Journal of International Business Studies</em></td>
<td>Focus on world’s largest firms domiciled in major industrialized countries (Japanese, European and U.S. MNEs), pharmaceutical and electronics industries</td>
<td>Examine the determinants of two motives of FDI in R&amp;D laboratories (two motives: augment a firm’s existing stock of knowledge (HBA) or to exploit this stock of knowledge (HBE))</td>
<td>An econometric analysis of 136 laboratory investments</td>
<td>Relative market size and relative strength of a country’s science base determine whether FDI in R&amp;D is carried out in order to exploit existing firm-specific advantages or in order to build up new firm-specific advantages. A firm’s propensity to invest in HBA R&amp;D activities abroad rises with the relative commitment to R&amp;D of private and public entities in the target country, as well as with the quality of the human resource pool and with the level of scientific achievement in relevant sciences. The propensity to invest in HBE activities increases with the relative attractiveness of the target country’s market.</td>
<td>Focusing on the large firms domiciled in major industrialized countries (US, Japan, European countries), these firms are at the forefront of knowledge creation in high technology sector, which implies that these firms have already had the capabilities to identify, recognize, value and absorb the external knowledge located in host country.</td>
</tr>
</tbody>
</table>

<p>| Author | Shan &amp; Song, 1997: <em>Journal of International Business Studies</em> | Japanese and European investors invest in US market Biotechnology industry | To investigate the proposition that FDI in a high-technology industry is motivated in part by the sourcing of country specific technological advantages embedded in foreign firms | The sample includes almost all of the population of biotechnology firms in the US that are potential targets of foreign equity investments. Use patents to represent technological advantage; technological advantage sourcing—patent citation as the measure. | FDIs are not just pushed by firm-specific advantages but are also pulled by the resources beyond the country boundaries of the firm if environmental conditions favour the ownership of these resources. In the biotechnology industry, FDI in the form of equity participation can be an efficient vehicle for tapping into country-specific, firm-embodied technological advantages. | By focusing on Japanese and European firms in biotechnology industry, it indicates these firms not only have the ability to identify and value the technology advantage at a host country (US market in this case), but also are able to identify and target individual firms with strong technology advantages. |</p>
<table>
<thead>
<tr>
<th>Author</th>
<th>Wilbur &amp; Alcecer, 2002: Management Science</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research context</td>
<td>US as the host country To study the inward FDI</td>
</tr>
<tr>
<td>Research Aim</td>
<td>To what extent do firms go abroad to access technology available in other locations? This paper examines whether and when state technical capabilities attract foreign investment in manufacturing from 1987-1993. Knowledge seeking and location choice of FDI in the US</td>
</tr>
<tr>
<td>Method</td>
<td>Analyse data at the state level. Examine the state location choice of 1,784 FDI transactions entering the US.</td>
</tr>
<tr>
<td>Conclusion</td>
<td>Firms in research-intensive industries are more likely to locate in states with high R&amp;D intensity. In pharmaceuticals, it is not the technical laggards but the firms from leading technical nations that more highly value state R&amp;D intensity.</td>
</tr>
<tr>
<td>Implications</td>
<td>Indicates the positive relationship between technology capability and its technology sourcing intention. The result that technology leading firms more highly value R&amp;D intensity in state than technology laggards indicates firms with higher absorptive capacity (technology leading firms) are more likely to value external knowledge. Firms in an R&amp;D intensive industry are more likely to seek knowledge in overseas markets.</td>
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<th>Authors</th>
<th>Berry, 2006: Strategic Management Journal</th>
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<tr>
<td>Research context</td>
<td>Japanese manufacturing firms</td>
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<tr>
<td>Research Aim</td>
<td>This paper analyses how firms in different technological and market share positions use foreign R&amp;D to augment their technological capabilities. Focus is on technological assets—Foreign R&amp;D. Involves technology transfer issues and absorptive capacity</td>
</tr>
<tr>
<td>Method</td>
<td>A panel dataset which includes information on all foreign R&amp;D investments made by publicly traded Japanese manufacturing firms (from 1974 to 1994),</td>
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<tr>
<td>Conclusion</td>
<td>Japanese firms investing in foreign R&amp;D tend to be the non-dominant market share firms, but also the technologically leading firms across fairly diverse industries. Considering the technological and market share results together, it is not the weak technological firms that are seeking foreign knowledge to compete with their industry leaders; rather it is the technologically strong firms in their industry that don’t tend to be the dominant firms in terms of market share in their home country that are investing in foreign R&amp;D.</td>
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<td>Implications</td>
<td>Suggests that taking into consideration absorptive capacity problems, coordination and technology transfer issues, and questions of capabilities and applicability, technological leading firms are more likely to benefit from foreign R&amp;D labs than technology laggards.</td>
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<th>Authors</th>
<th>Ivarsson &amp; Jonsson, 2003: International Business Review</th>
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<tr>
<td>Research context</td>
<td>Foreign TNCs in Sweden</td>
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<tr>
<td>Research Aim</td>
<td>The overall aim of this paper is to empirically analyse to what extent foreign-located affiliates of TNCs are engaged in asset-seeking FDI; This paper discusses the importance of local technological competence as a localization factor motivating asset-seeking FDI.</td>
</tr>
<tr>
<td>Method</td>
<td>Firm-level data was collected from January to March 2000 through a mailed questionnaire to Majority owned foreign affiliates (MOFA). 287 usable responses received.</td>
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<tr>
<td>Conclusion</td>
<td>The findings indicate that in a substantial number of MOFAs, the operations are part of an asset-seeking strategy, where the technological competence generated through MOFAs’ internal R&amp;D operations, as well as through inter-firm collaboration with local business partners, especially customers, are not only aimed at local market adaptation, but also exploited internationally.</td>
</tr>
<tr>
<td>Implications</td>
<td>The findings suggest that the existing, predominantly theoretical, literature (see for example, Chen &amp; Chen, 1998; Pearce, 1999a; Patel &amp; Vega, 1999; Dunning, 2000; Kuemmerle, 2000) that today TNCs often are engaged in asset-seeking FDI, attracted by created assets such as localised technological competence.</td>
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<th>Authors</th>
<th>Research context</th>
<th>Research Aim</th>
<th>Method</th>
<th>Conclusion</th>
<th>Implications</th>
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<tr>
<td>Mutinelli and Piscitello, 1998:</td>
<td>FDI undertaken by Italian firms</td>
<td>The purpose of this paper was to shed light on the role of some key factors that influence the entry mode choice of MNEs. Firms’ FDI motivations and entry mode choice—focus on resource based view of firm—international experience and size of the firm</td>
<td>The study has relied on an extensive field analysis focused on a representative sample of FDI undertaken by Italian firms in the period 1986–1993.</td>
<td>These findings suggest that <em>ceteris paribus</em> joint ventures undertaken by Italian firms in North America were mainly aiming at gaining access to and developing technology and skill-related intangible resources, while in Western Europe, they were more likely directed towards product diversification and the establishment of strategic alliances. Those findings have some implications on the rationale for FDI. While most of the received literature on MNE tends to assume that firms engage in FDI only in order to best exploit, or organize more efficiently their existing competitive advantages, in the more recent period,</td>
<td>It indicates that firms conducting strategic asset-seeking FDI need to have capabilities to deal with constraints which become more crucial when they enter into unfamiliar markets and areas of activities. Firm-specific tangible and intangible assets affecting their ability to acquire complementary assets and resources and to reduce the related transaction costs and those concerning the need to gather information, therefore influence their entry mode choices. MNE activity has been increasingly motivated by the desire to acquire new competitive advantages on one hand, and by the inability of building them internally, on the other.</td>
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<td>Nachum &amp; Zaheer, 2005:</td>
<td>The impact of technology on investment motivations, US market</td>
<td>To examine how variation in the costs of distance, caused by technological developments, affect one aspect of international activity: the rationale for foreign investment. Explains why, when technology has made it possible to do business at a distance, firms continue to invest overseas.</td>
<td>The measure of knowledge seeking: The level of compensation per employee. R&amp;D intensity, measured by R&amp;D investment by affiliates as a share of sales</td>
<td>The quest for intangible assets in the form of highly paid human capital and the search for efficiency are the two most important explanations for international activity in information-intensive industries, reinforcing the value of intangible resources such as intellectual capital in this sphere. The key finding is that investments in industries with different levels of information intensity are driven by different motivations.</td>
<td>It implies that the intention to invest precedes the actual possession of advantages, and even can be a necessary precondition for the creation of these advantages. Knowledge-seeking investment depends on learning capabilities and on the integration of this learning with the firm’s own knowledge.</td>
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<tr>
<td>Almeida, 1996:</td>
<td>U.S. Semiconductor Industry</td>
<td>The learning and contribution patterns of multinational firms in the US semiconductor industry</td>
<td>Use patent citation data of the foreign semiconductor-related R&amp;D labs in the U.S. The firms constituting the sample are big MNEs—twenty two semiconductor firms from Britain, Canada, France, Germany, Italy, Japan, Korea and Taiwan had US based plants which had patented semiconductor innovations. The firms analysed are all among the top patent holders in the semiconductor industry.</td>
<td>At the regional level, patents that belong to foreign R&amp;D labs tend to cite local patents significantly more than those of the domestic R&amp;D labs that are used as matched control cases, which suggests that foreign firms set up R&amp;D labs to gain access to the local knowledge that resides in the centre of innovation.</td>
<td>By focusing on highly developed firms in the high technology sector, it shows the evidence of strategic asset-seeking, which assumes that these firms have had high levels of overall capabilities. Meanwhile, it also suggests that firms not just have the ability to identify locational advantages at country level but also have the ability to identify valuable assets residing in specific firms. They tend to target firms with high R&amp;D intensity.</td>
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## B: studies on NIEs

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<tr>
<th>Authors</th>
<th>Makino et al., 2002: <em>Journal of International Business Studies</em></th>
<th>Research context</th>
<th>Research aim</th>
<th>Method</th>
<th>Conclusion</th>
<th>Implications</th>
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<td></td>
<td></td>
<td>Taiwanese firms invest in both DCs and LDCs</td>
<td>Firms’ asset-exploitation and asset-seeking motivations and its capabilities as moderating factor impact on location choice in foreign investment</td>
<td>A sample of 328 Taiwanese firms</td>
<td>The NIE firms engaging in strategic asset-seeking FDI were more likely to invest in DCs over LDCs when they possessed advantages in technology-based capability over indigenous firms and prior seeking experience than when they did not possess such advantages and experience.</td>
<td>Firms’ technology seeking motivation is associated with the firm’s technology capability and prior technology seeking experiences. It suggests (in the literature review part) that for firms from NIE to conduct strategic asset-seeking FDI, they should possess related technological capabilities that are advanced enough to absorb the superior technological capabilities.</td>
</tr>
<tr>
<td>Authors</td>
<td>Tseng, 2007: <em>Canadian Journal of Administrative Sciences</em></td>
<td>Taiwanese overseas investment</td>
<td>Links firm specific advantages with asset seeking and asset exploitation motivation to understand firms’ location choice</td>
<td>The sample for this study consists of Taiwanese manufacturing firms that have foreign direct investments. 168 firms, 74 responses</td>
<td>Wholly-owned subsidiaries are preferred to joint ventures when multinationals are able to tap into host innovatory dynamism by employing extant technological capabilities and to access local natural resources by leveraging corporate scales. Nonetheless, multinationals face difficulties in deploying marketing knowledge in different contexts and thus are more likely to choose joint ventures for an aggressive foreign market entry.</td>
<td>Sheds light on a firm’s technology capability and has a positive relationship with its asset-seeking motivation.</td>
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<tr>
<td>Authors</td>
<td>Chen &amp; Chen 1998: <em>Thunderbird International Business Review</em></td>
<td>Taiwanese FDI</td>
<td>The purpose of this article is to present evidence that substantiates the strategic linkage theory which suggests that a firm would link up to resources that may enhance its capabilities to meet the challenges. The strategic linkage types of FDI include 4 types of FDI: resource-based, market-seeking, efficiency-seeking and strategic asset seeking.</td>
<td>Measuring the level of proprietary asset by technological capability and scale of operation. Survey of 554 Taiwanese firms that have made direct investment in the US, China, and Malaysia.</td>
<td>Firms possessing high levels of proprietary assets (represented by technological capabilities and scale of operation) are more inclined and capable to invest in developed countries and pursue multiple investments.</td>
<td>Suggests the positive relationship between firm’s technological capabilities and the likelihood to invest in advanced countries, and the effectiveness to utilize locational advantages. Firms with higher level of proprietary assets have the ability to recognize the value of external assets which complement their own assets and together with their own extant assets generate competitive advantage.</td>
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# C: Extant studies on the rationale of Chinese firms’ strategic asset-seeking FDI

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<tr>
<th>Author</th>
<th>Focus</th>
<th>Entry modes</th>
<th>Method</th>
<th>Findings</th>
<th>Implications</th>
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<tr>
<td>Deng (2007)</td>
<td>Explains Chinese firms’ outward investment in advanced markets by using the asset-seeking motivation and explains the rationale behind it.</td>
<td>Green field investment, M&amp;A.</td>
<td>A detailed analysis of both primary and secondary data sources for several leading Chinese firms.</td>
<td>When investing in advanced economies, Chinese multinational corporations (MNCs) are motivated primarily by the quest for strategic resources and capabilities, and shows that the underlying rationale for such asset-seeking FDI is strategic needs. Firms’ strategic needs decide whether or not asset-seeking FDI can or cannot take place. The strategic needs come from the firms’ vulnerable domestic position and firms’ aspiration stimulated from government.</td>
<td>Firms realize their gap and strategic needs and possess a certain level of absorptive capacity at the first place. However, the AC level of these firms and how exactly does AC impact on strategic asset seeking decisions remain unclear.</td>
</tr>
<tr>
<td>Cui &amp; Jiang (2008)</td>
<td>This study investigates the determinants of FDI entry mode choice between a wholly owned subsidiary and a joint venture by Chinese firms that invest overseas.</td>
<td>Wholly owned subsidiary and joint venture</td>
<td>Survey A sample of 138 Chinese firms.</td>
<td>A Chinese firm’s FDI entry mode choice decision is dependent on host industry competition, host industry demand, the firm’s asset-seeking motivation, and its global strategic motivation. A Chinese firm’s asset-seeking motivation is positively related to the likelihood that the firm will prefer a WOS entry mode in their FDI.</td>
<td>Provide evidence for Chinese firms’ strategic asset-seeking activities.</td>
</tr>
<tr>
<td>Deng, (2009)</td>
<td>Examining the rationale of Chinese firms’ strategic asset-seeking FDI through M&amp;A based on institutional perspective.</td>
<td>M&amp;A</td>
<td>Three case studies focus on M&amp;A.</td>
<td>Chinese firms increasingly use cross-border M&amp;A to acquire SA because they are under pressure to conform to the home country institutional environment and the prevailing corporate values and norms. In particular, the role of government, escape response to institutional constraints, corporate values and norms, inward FDI as stimulus to overseas M&amp;A.</td>
<td>Suggests that future research can incorporate the concept of absorptive capacity to get a complete picture of the process of acquisition of strategic assets for sustainable competitive advantages.</td>
</tr>
<tr>
<td>Rui &amp; Yip (2008)</td>
<td>Presents a strategic intent perspective to analyse the foreign acquisitions made by Chinese firms.</td>
<td>M&amp;A</td>
<td>Three case studies.</td>
<td>It suggests that Chinese firms strategically use cross-border acquisitions to achieve goals, such as acquiring strategic capabilities to offset their competitive disadvantages and leveraging their unique ownership advantages, while making use of institutional incentives and minimizing institutional constraints.</td>
<td>It indicates the relevance of strategic intent other than institutional perspective to understand Chinese firms’ SAS investment.</td>
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</table>
2.4.1: Strategic asset-seeking FDI from advanced country MNEs

Most of these studies centre on augmenting investing firms’ own technological competences through tapping into localized technological sources. The context of these studies implies the relevance of absorptive capacity to SAS FDI.

The technology advantages in advanced countries have been regarded as the ‘locational pull factors’ which attract these firms to make asset-seeking investment. The US has been the most frequently studied host country receiving technology-seeking types of investment from other developed countries--mainly Japan and European MNEs (e.g. in the study of Kuemmerle, 1999; Shan and Song, 1997; Nachum and Zaheer, 2005; Almedia, 1996; Chung and Alcácer, 2002; Belderbos, 2003). These investments focus on high technology industries such as biotechnology, pharmaceutical, electronics industries and other research-intensive sectors (Almeida, 1996; Shan and Song, 1997; Kuemmerle, 1999; Chung and Alcácer, 2002). The context implies that these firms already possess the requisite technological capabilities that are advanced enough to recognize and absorb the advanced technology embedded in host countries. For example, Kuemmerle (1998) studies the determinants of asset-augmenting and asset-exploiting FDI in R&D laboratories by focusing on the world’s largest firms in pharmaceutical and electronics industries. These firms are standing at the forefront of knowledge creation and possess high absorptive capacities. Similarly, in Almeida’s study, it targets twenty-two big MNEs that established R&D laboratories in the semiconductor industry. These enterprises are all among the top patent leaders.

This is consistent with the proposition in the IDP model that strategic asset-seeking FDI generally occurs when countries reach a certain stage of economic development. This suggests that the countries as well as the firms embedded in these countries already had the threshold capabilities (also known as the created assets) to enable strategic asset-seeking FDI to happen.
Besides, a positive relationship has been found between firms’ technology capabilities and their technology sourcing intention.

As technology seeking is the major modality of strategic asset-seeking in existing SAS internationalization studies, firms’ technology capabilities measured by their R&D intensity have emerged as the firm specific capabilities pertaining to MNEs’ technology seeking foreign investment. Suggestions have been raised that firms with high technology capabilities are more likely to have the intent of deploying the technology advantages embedded in host markets. For example, in Chung and Alcácer’s study (2002), they suggest that firms in research-intensive industries are more likely to conduct technology-seeking investment in high R&D-intensive locations. In contrast to the general belief that technology laggards have greater motivation to catch up and therefore conduct technology-seeking activities, the finding reveals that, in the pharmaceutical industry, it is not the technical laggards but the firms from leading technical nations that more highly value state R&D capabilities. Mutinelli and Piscitello (1998) suggest the importance of a firm’s internal capabilities to conduct strategic asset-seeking investment. They claim that firm-specific assets affect firms’ ability to acquire complementary assets and resources. In a similar vein, Berry (2006) finds that it is not the weak technological firms that are seeking foreign knowledge to compete with their industry leaders; rather it is the technologically strong firms. He also suggested that technological leading firms are more likely to benefit from foreign R&D labs than technology laggards, when taking firms’ level absorptive capacity into consideration.

Furthermore, evidence has been found that advanced MNEs conducting asset-seeking foreign investment have the ability to value external assets. They not only have the ability to identify locational advantages at country’s level but also have the ability to identify valuable assets residing in specific firms. For example, Shan and Song (1997)’s finding on Japanese and European firms’ technology sourcing activities in the US indicates that these Japanese and European investors have the ability to identify and target local firms with strong technology advantages. Almeida (1996) found specific
firm-to-firm linkages rather than just regional concentration. For example, his result reveals that the Siemens plant in New Jersey overwhelmingly cites patents from Bell Labs and AT&T, and SGS-Thomson in the Dallas area of Texas commonly builds on patents by Texas Instruments. This suggests that these firms are able to identify valuable assets residing in other firms. The ability to identify targets represents their absorptive capacity. He further suggests that firms with strong technological capabilities are more likely to identify external valuable technological-related assets than firms that with moderate R&D capabilities. R&D capabilities are an important component of absorptive capacity. This implies the relevance of absorptive capacity of firms in their asset-seeking activities.

Therefore, in the studies on advanced country MNEs’ asset-seeking FDI, it has been assumed that firms that engage in strategic asset-seeking FDI already possessed a high level of absorptive capacity to let them identify, understand and absorb external valuable assets.

2.4.2: Strategic asset-seeking FDI by MNEs from NIEs

In recent literature, it has been observed that firms from newly industrialized countries are also adopting strategic asset-seeking types of internationalization so as to catch up with leading MNEs (Makino et al., 2002; Tseng, 2007; Chen and Chen, 1998ab). Studies found that FDI from NIE firms in a DC happens not only when the firms possess certain forms of firm-specific advantages exploitable to a DC, but also when they intend to seek technology based resources and skills in a DC that are superior or not available in their home countries (Makino et al., 2002).

Several studies on Indonesian and Taiwanese firms’ strategic asset-seeking investment have been conducted. In these studies, a positive relationship has also been found between firm’s technology capabilities with its asset-seeking motives. Studies focused on using firms’ different motivations (i.e. asset-exploiting, and asset-seeking) and
firm’s own technology capabilities to explain the location choice between developed countries and developing countries (Makino et al., 2002; Tseng, 2007; Chen and Chen, 1998ab). The firms’ capabilities refer to firms’ R&D capabilities/technology related capabilities, measured by R&D intensity, and technology seeking experiences. It suggests that the stronger a firm’s technology related capabilities, the more likely that the firm will have an asset-seeking intent and invest in advanced markets.

In addition, the strategic asset-seeking internationalization from NIEs is not taken for granted anymore. Studies have explicitly addressed the necessity to consider firm-specific capabilities when examining NIE firms’ asset-seeking internationalization. They propose that except for the firm’s desire to gain assets in advanced markets, firms also need to possess capabilities i.e. resources and skills necessary to engage in outward strategic asset-seeking internationalization (Makino et al., 2002). Motivation and firms’ capabilities are two requirements for strategic asset-seeking through international expansion to happen.

Specifically, Makino et al. note absorptive capacity as an important factor. They argue that the proprietary assets, which comprise firm-specific advantages in a traditional asset-exploitation perspective, contribute to firm’s absorptive capacity in the asset-seeking perspective, which further influences the build-up of new capabilities (Makino et al., 2002). Firms from advanced markets are considered to possess a high level of absorptive capacity; in the case of firms from newly industrialized economies, their firm-specific capabilities are considered to be less apparent than those of their western counterparts, and this is the case for their absorptive capacity. Therefore, absorptive capacity should be taken into consideration. For instance, Makino et al. (2002: P418) suggest that for NIE firms, ‘access to created country-specific endowments such as strategic assets owned by indigenous firms may require the investing firms to possess certain forms of firm-specific absorptive capacity because the acquisition and integration of such endowments (assets) are difficult and costly due to tacit and organizationally embedded nature of the endowments (assets)’.
Makino et al. (2002) in their studies of the relationship between Taiwanese firms’ asset-seeking and asset-exploitation motivation and the impact on foreign investment location choice, found that firms from NIEs that conduct strategic asset-seeking FDI possess high levels of proprietary assets in terms of technology capabilities, and knowledge seeking experiences. As absorptive capacity comprises knowledge base and knowledge seeking experiences, this actually indicates that firms’ strategic asset-seeking intent is positively related to firms’ absorptive capacity level. In the same line, Tseng (2007), through studying 74 Taiwanese manufacturing firms’ FDI, implies that Taiwanese firms with strong technology capabilities are more likely to conduct technology seeking types of investment. Studies on these firms’ capabilities reveal that these firms have the capability to absorb this technology, hence this encourages them to invest in developed countries.

Chen and Chen (1998b) adopted strategic linkage theory to explain the pattern of Taiwanese FDI. They found that Taiwanese firms that conduct asset-seeking investment in the US market are mainly technologically strong and large sized firms; while firms investing in China are smaller firms with low technology capabilities. They concluded that firms possessing higher levels of proprietary assets are more likely and capable to undertake strategic asset-seeking types of investment in countries that are psychologically and geographically distant from Taiwan.

In Chen and Chen (1998b)’s study, they claim that firms’ proprietary assets determine the type of FDI they conduct. Specifically, firms with a high level of proprietary assets are more capable to seek complementary assets including markets, natural resources and technological resources residing in host countries,

Therefore, the above studies have indicated that firms that have conducted strategic asset-seeking activities have already had the basic absorptive capacity to recognize the valuable assets in the first place. It suggests a positive relationship between a firm’s absorptive capacity and its asset-seeking intention. Firms that undertake strategic
asset-seeking foreign investment are those that possess superior absorptive capacity compared with other firms. However, these studies have not fully explored how absorptive capacity influences firms’ strategic asset-seeking activities through internationalization. A systematic investigation is still needed to build consensus on this issue.

2.4.3: Strategic asset-seeking FDI from Chinese MNEs

Despite the fact that much attention has been paid to Chinese firms’ internationalization (Morck et al., 2008; Luo et al., 2010; Lu et al., 2011), literature specifically looking at Chinese firms’ strategic asset-seeking types of internationalization is still scant except for a few articles. There is some initial literature regarding Chinese firms’ asset-seeking investment in advanced markets or through aggressive international entry modes, e.g. cross-border M&A. However, the theoretical underpinning remains underdeveloped.

In the field of asset-seeking by Chinese enterprises, initial efforts have been made to uncover the rationale behind Chinese firms’ strategic asset-seeking motivation. Within the limited studies, Deng (2007) suggested that for strategic asset-seeking outward investment to take place, Chinese firms must have a need for strategic resources. The strategic needs come from two aspects, viz. firms’ vulnerable position and firms’ aspiration. These firms face high competition in domestic markets. They need advanced capabilities and competences to upgrade their ownership advantage so as to compete with rivals from developed countries. Because of the relatively poor situation in the domestic market, these firms are unable to gain assets from domestic markets, therefore, they treat FDI as a means to access advanced assets. Meanwhile, these firms are stimulated by government encouragement to be world top players. Their aspiration to become global leaders also stimulates them to undertake strategic asset-seeking outward investment.

Building on this work, Deng further introduced the institutional theory to explain the
rationale for Chinese firms’ strategic asset-seeking FDI (Deng, 2008). The institutional perspective stresses the environment that firms operate in as the force that drives firms to undertake international strategic asset-seeking activities. In this article, he argued that Chinese firms are facing pressures from institutional environments at both national level and firm level.

At the national level, the Chinese government plays an important role in influencing firms’ outward investment decisions. The Chinese government has been deliberately and strategically encouraged and organized Chinese enterprises’ overseas activities (Wang, 2002). It has made favourable rules and regulations to provide a stable and supportive environment for Chinese firms’ outward investment. Also, Chinese government explicitly gives clear direction about which types of outward investment to encourage. Under these circumstances, strong Chinese firms are encouraged to participate in global competition; also cross-border knowledge-seeking and innovation-enhancing types of investment are supported by government. On the other hand, as an emerging market, the unfavourable domestic market condition also places a constraint on Chinese firms building up their competences. For example, the domestic factor is still underdeveloped, which makes Chinese firms unable to access and develop advanced intangible assets such as technological assets, and managerial assets. In addition to this, the poor legal frameworks and intellectual property protection also weaken Chinese firms’ tendency to develop new product and processes, and in turn hamper them from developing their innovation capabilities. Buckley et al. (2007) also stressed institutional factors that influence Chinese enterprises’ outward direct investment. The imperfections in the capital market enable Chinese firms to get soft budget constraints especially in state-owned-enterprises. They argue that capital market imperfections maybe one of the reason for strategic-asset-seeking FDI to be undertaken by Chinese MNEs.

At the firm level, there are prevailing norms and values among Chinese corporations, i.e. to become world class firms and/or join the Fortune 500 list. This aspiration also
pushes Chinese enterprises to engage in strategic asset-seeking outward investment. As to the sufficient inward FDI in the domestic market, Deng (2009) suggested that the knowledge transfer from foreign MNEs to Chinese enterprises is limited. Most of their investments do not involve high value-added activities. On one hand, western MNEs are attracted by the huge Chinese domestic market and the low cost advantages in China (Rui and Yip, 2008). On the other hand, they are unwilling to transfer knowledge to their Chinese partners and in many cases adopt defensive actions to protect their capabilities, especially when the capabilities are of strategic importance (Simonin, 1999). Thus the transfers of core technologies and capabilities are limited. Chinese firms that have a strong learning intent would not be satisfied with the limited spill overs from inward collaboration with foreign investors and are forced to go overseas to seek new sources.

In a similar vein, Rui and Yip (2007) emphasized that Chinese firms’ foreign acquisitions are influenced by institutional incentives and firms’ attempts to minimize institutional constraints. They conducted interviews with several Chinese companies, and found that Chinese firms use foreign acquisition to compensate for their competitive disadvantages, and also they use foreign acquisitions to overcome institutional constraints and augment their institutional advantage.

Therefore, existing studies on explaining the rationale of Chinese enterprises’ international strategic asset-seeking mainly focused on: firms’ strategic needs stemming from government encouragement and entrepreneur ambition; and reaction to poor domestic market constraints. Apart from these, few articles have paid special attention to explain the rationale behind firms’ strategic asset-seeking FDI. However, this only provides answers for firms’ motivation; the requisite capabilities these firms possessed still have been largely overlooked. Absorptive capacity as the internal capability that influences emerging economic firms’ strategic asset-seeking investment has not been explored, although in Deng’s studies, it is stated that it is necessary to employ absorptive capacity to understand Chinese firms’ strategic asset-seeking activities in
future studies.

To sum up, there is much evidence supporting MNEs’ strategic asset-seeking through internationalization. These studies mainly focus on strategic asset-seeking among developed countries and newly industrialized economies. Studies on firms from developed countries indicate a positive relationship between firm level capabilities and the tendency of strategic asset-seeking activities. Studies on newly industrialized regions represented by Taiwanese firms, suggest the importance of absorptive capacity, however, without directly looking at it. These studies presumed that the firms possessed capabilities to recognize the assets, however whether they actually targeted and acquired the right assets, how their firm level capabilities influence the SAS events, remain underdeveloped. In reference to studies on Chinese firms’ international strategic asset-seeking, existing studies focus on institutional forces and firms’ strategic needs, a clear focus on firm specific capabilities as the underpinning construct for strategic asset-seeking through internationalization is missing.

2.6 Conclusion

This chapter has reviewed several streams of literature so as to provide an understanding about the rationale for this study. The IDP suggests that strategic asset-seeking FDI generally occurs in countries that have reached a high level of economic development, i.e. stage 4 and 5 countries. EMNEs’ strategic asset-seeking FDI is viewed as an exceptional phenomenon. IDP implies the relevance of firm level capabilities to strategic asset-seeking through international expansion. However, extant literature has not fully explored the underpinning of this phenomenon at firm level. Previous studies on strategic asset-seeking indicated the importance of firm specific capabilities, especially absorptive capacity, in firms’ strategic asset-seeking through internationalization. For strategic asset-seeking from advanced MNEs, the strategic asset-seeking FDI is considered to be a sensible and predictable investment activity
which is a natural outcome of economies’ development stage and firms’ abilities. However, EMNEs cannot take this for granted. A specific focus on exploring absorptive capacity in strategic asset-seeking activities is needed so as to understand EMNEs’ strategic asset-seeking behaviour from firm-specific level.
Chapter 3

LITERATURE ON ABSORPTIVE CAPACITY

3.1 Introduction

This study aims to explore the role of firms’ absorptive capacity (AC) as the underlying capability influencing strategic asset-seeking activities by firms from emerging economies. In chapter 2, the rationale for this study has been elaborated through reviewing several streams of international business literature on SAS internationalization. This chapter will specifically review relevant literature on the construct of AC, with the aim to consolidate the necessity to integrate AC into understanding SAS internationalization.

This chapter is organized as follows. Firstly, the definition and components of AC will be reviewed. This will help us to clarify the scope of this study. Then the reconceptualization on AC as a dyad level construct will be reviewed, as this is highly relevant in a dyadic relationship, which is a common mode in SAS activities. After this, the determinants of absorptive capacity will be discussed. Understanding the determinants of this construct will provide essential guidance for case study data collection and analysis. Finally, a conceptual framework will be produced, illustrating the linkage between a firm’s absorptive capacity and its international SAS activities.

3.2 Absorptive capacity

Absorptive capacity was initially used in macroeconomic domains to explain the innovation capacity of an economy (Adler, 1965). In 1989, Cohen and Levinthal brought this concept into the organization level. They offered the most widely cited definition for AC i.e. ‘the ability of a firm to recognize the value of new, external information, assimilate it and apply it to commercial ends’. Put simply, absorptive
capacity represents a firm’s ability to exploit external knowledge (Cohen and Levinthal, 1990). From then on, the construct has been closely linked with organizational learning (Kim, 1998; Lane and Lubatkin, 1998; Kim and Inkpen, 2005; Sun and Anderson, 2008; Lichtenthaler, 2009), technology innovation (Schilling, 1998; Pandza and Holt, 2007) and so on. In more recent literature, the scope of AC has been extended. Lewin et al., (2011) argue that the existing definition of AC focused on gaining knowledge from firms’ external sources, while it overlooked the exploration and creation of knowledge from firms’ internal sources. They therefore decompose AC into two dimensions, i.e. external AC that is the identification, acquisition and assimilation of new knowledge from the external environment, and internal AC which refers to the creation of knowledge through firms’ internal routines. This has given AC a broader applicable context. With the focus on SAS internationalization, AC in this study mainly refers to external AC.

In today’s fierce competition, external knowledge has become an increasingly important source for firms to build up their competitiveness (Ireland et al., 2002; Zollo et al., 2002; Fosfuri and Tribo, 2008). Absorptive capacity, representing the ability to utilize external knowledge, has become a major source of firm’s competitive advantage (Tsai, 2001; Zahra and George, 2002; Fosfuri and Tribo, 2008).

Despite its significance in the field of obtaining externally sourced knowledge, the absorptive capacity in international investment has received less attention, except for a handful of studies in cross-border alliances (Inkpen, 2000). The fact that strategic asset-seeking through internationalization concerns firms gaining assets from external sources, has not attracted enough attention to integrate absorptive capacity into strategic asset-seeking internationalization. Nonetheless, as reviewed earlier in Chapter 2, there are a few studies which pointed out the relevance of absorptive capacity to strategic asset-seeking internationalization. In particular, with regards to Chinese enterprises’ strategic asset-seeking activities, Deng (2008) pointed out that in the future, studies should take consideration of the absorptive capacity when examining Chinese
firms’ strategic asset-seeking internationalization. Consequently, more attention is needed on employing absorptive capacity in understanding firms’ strategic asset-seeking, especially in explaining emerging economic firms’ international strategic asset-seeking activities.

Rich studies have been generated with the focus of absorptive capacity both at conceptual level and empirical level, mainly building on two seminal works, viz. Cohen and Levinthal’s (1989; 1990) and Zahra and George’s (2002). Our review on absorptive capacity will also be based on the above two studies. In addition, we will encompass recent influential insights on reconceptualization of this construct.

3.2.1 Components of absorptive capacity

Given the significance of absorptive capacity in explaining firm’s performance in organizational learning and innovation, it is critical to clarify the components of absorptive capacity to properly understand the role of this construct in Chinese MNEs’ SAS internationalization activities. In their seminal paper, Cohen and Levinthal (1989) offered a rich analysis about absorptive capacity and provided the fundamental argument for others’ research. A few studies have attempted to clarify the components of absorptive capacity grounded on Cohen and Levinthal’s original work. In this section, we will elaborate on four most cited works, i.e. Zahra and George (2002), Lane _et al._ (2006), Todorova and Durisin (2007), together with Cohen and Levinthal’s original model. Based on these models, we will clarify the conceptual model and the components of absorptive capacity for the purpose of this study.

In Cohen and Levinthal’s original model, they separated absorptive capacity into three abilities i.e. value, assimilate and utilize (See Figure 3.1). In their paper, they firstly examined the composition of individual absorptive capacity, which is the basic unit that comprises organizational absorptive capacity, then distinguished these two absorptive capacities by adding organizational mechanisms (Cohen and Levinthal, 1989; 1990).
According to Cohen and Levinthal, individual members’ absorptive capacity constitutes organizational absorptive capacity, however, firm’s organizational absorptive capacity is not simply the sum of individuals’ absorptive capacity. They argued that with respect to organizational absorptive capacity, the communication systems between external environment and organization, as well as among the subunits of the organization, need to be considered.

In addition, Cohen and Levinthal (1990) pointed out that absorptive capacity has two characteristics: domain-specific and path-dependent. Domain-specific implies that firms have different absorptive capacities in different aspects. Thus, knowledge in different aspects contributes to the absorptive capacity level in different domains. Path-dependent indicates an incremental process for firms to accumulate absorptive capacity. As learning is cumulative, learning performance is greatest when the object of learning is related to what is already known. Learning is more difficult in novel domains; individual’s expertise can only change incrementally. The figure below shows the gist of their original model:

![Absorptive capacity model](image-url)

**Figure 3.1: Cohen and Levinthal’s three stage sequential model of absorptive capacity** Adapted from Lane *et al.* (2006)

Zahra and George (2002) adopted a dynamic perspective to view absorptive capacity. They stated that absorptive capacity is a dynamic capability pertaining to learning and an important source for firms to generate and maintain competitive advantage. By understanding absorptive capacity as a dynamic capability, it moves absorptive capacity
away from an exclusively R&D focus to a broader dynamic capability perspective (Lane et al., 2006). They further reconceptualised the model by disaggregating absorptive capacity into two dimensions, viz. potential absorptive capacity (PAC) and realized absorptive capacity (RAC) (Zahra and George, 2002). Potential absorptive capacity refers to firms’ knowledge acquisition and assimilation capabilities. Realized absorptive capacity refers to firms’ ability to transform and exploit the knowledge. These four components, i.e. acquisition, assimilation, transformation, and exploitation comprise a dynamic absorptive capacity (see Figure 3.2).

Zahra and George’s reconceptualization on absorptive capacity and the four steps of absorptive capacity that they distinguished have a wide influence on the extant studies. Many studies have been conducted based on Zahra and George’s model (e.g. Fosfuri and Tribó, 2008; Gil et al., 2009; Camisón and Forés, 2010). This model delineates different dimensions of the absorptive capacity. It allows researchers to understand different foundations underpinning each dimension, and interrelationship among these dimensions.

Zahra and George (2002) argued that PAC and RAC contribute differently to the firm’s competitive advantages (Zahra and George, 2002). The two absorptive capacities have different antecedents and different functions to firms’ development of competitive advantages.

The potential absorptive capacity, (PAC), i.e. acquisition and assimilation, are claimed to focus on knowledge creation, while realized absorptive capacity, i.e. the transformation and exploitation, focus on deploying the knowledge (Matusik and Heeley, 2005). Realized absorptive capacity relating to organizational capability to transform and exploit the assets to commercial ends is suggested to be the primary source for firms’ competitive advantage. It directly influences firms’ innovation output (Murovec and Prodan, 2009). Whereas, potential absorptive capacity is important for firms to upgrade their capabilities and skills, to renew knowledge stock and skills, to
spot trends and overcome the competence trap. PAC enables a firm’s receptiveness to external knowledge (Fosfuri and Tribo, 2008). It does not have a direct impact on firms’ performance, however, it is the precondition for successful learning outcome since firms need to evaluate external assets first before exploiting it (Arora and Gambardella, 1994). Thus, PAC is critical to the performance in that firms may acquire wrong assets in the first place. PAC consists of two sub elements: acquisition and assimilation. Acquisition ‘refers to a firm’s capability to identify and acquire externally generated knowledge’. Assimilation refers to ‘the firm’s routines and processes that allow it to analyse, process, interpret and understand the information obtained from external sources’ (Zahra and George, 2002: P189).

![Figure 3.2: Zahra and George’s four-stage model of absorptive capacity. Adapted from Zahra and George (2002)](image)

The model developed by Zahra and George, used widely by the ensuing studies, has been considered as providing a better understanding about this construct (Todorova and Durisin, 2007). However, the separation of the four dimensions has received criticisms from a number of researchers (e.g. Lane et al., 2006; Todorova and Durisin, 2007). They challenged Zahra and George’s four-stage model and suggested that the four-processed separation needs to be restructured.

Lane et al. (2006), based on Cohen and Levinthal’s original definition, suggested that absorptive capacity is a three stage sequential process which comprises exploratory learning, transformative learning and exploitative learning, instead of the four
components’ definition proposed by Zahra and George. They argued that firms first recognize and understand potential valuable external knowledge through exploratory learning which is similar to Zahra and George’s definition of acquisition. Then in the transformative stage, which links exploratory learning and exploitative learning, firms combine the new knowledge with existing knowledge. Finally, in the exploitative learning stage, firms create new knowledge and put it to commercial ends. The exploitative process is similar to the notion of realized absorptive capacity in Zahra and George’s framework. They argued that the acquisition pertains to activities that happen between the external environment and firm boundaries, whereas assimilation of the knowledge takes place within the firm. Thus, they separated the acquisition and assimilation process by delineating acquisition in the exploratory learning process and assimilation in the transformative process. This separation has been advocated by several researchers. For example, Liao et al. (2003) in their study of potential absorptive capacity, also noted that acquisition and assimilation are two separate constructs. The figure below shows the three processes.

![Figure 3.3: Three sequential processes of firm’s absorptive capacity](Adapted from Lane et al., 2006)

In the same vein, Todorova and Durisin (2007) criticized the insufficient development in extant studies about Cohen and Levinthal’s original work. They pointed out that Zahra and Geroce’s model has not fully comprehended the richness of Cohen and Levinthal’s work. They argued that a reintegration into Cohen and Levinthal’s
conceptualization is crucial to contribute to a better and accurate understanding about absorptive capacity. Specifically, Todorova and Durisin (2007) challenged Zahra and George’s model in two aspects. Firstly, similar to Lane et al. (2006), they argued that given the four steps of absorptive capacity raised by Zahra and George (2002), the value of the external assets originally raised by Cohen and Levinthal (1990) should be reintroduced as a step separate from and before acquisition. In Zahra and George’s framework, acquisition was introduced as the first component which emphasized the intensity and speed of efforts which the firm made to value external assets. It does not give enough attention to identification, which is concerned with the firm’s ability to recognize and understand external assets. This assumes that firms have already had the ability to recognize external valuable assets. In reference of this, Todorova and Durisin (2007) pointed out that the ability to recognize the external value does not happen automatically. It is a critical step which should not be taken for granted. The result of gaining assets from external sources is largely depended on the firms’ ability to recognize external valuable assets. They suggested the reintroduction of the step of recognizing the value, before the step of acquisition, assimilation or transformation, and exploitation of knowledge.

They further pointed out that in Zahra and George’s (2002) model, the relationship between assimilation and transformation is not adequate. They argued that transformation should not be a step after assimilation, instead, a process alternative to assimilation. Based on the learning theories, when the new knowledge does not need to alter existing cognitive structures, the knowledge is assimilated; when the new knowledge could not be fitted into existing cognitive structure, it must be transformed to be able to be assimilated. Therefore, ‘firms transform their knowledge structures when knowledge cannot be assimilated. Transformation represents an alternative process to assimilation.’ (Todorova and Durisin, 2007: P778). This process allows firms to combine external knowledge into their own internal knowledge bases. They offered a new process model which is shown in the figure below.
Following the above arguments, the distinction between potential absorptive capacity and realized absorptive capacity claimed by Zahra and George does not stand. ‘Potential’ might refer to the new knowledge that enters the organization and is not yet assimilated or transformed, which is an exploratory learning process. Moreover, under these circumstances, potential absorptive capacity should be understood as mainly depending on knowledge base instead of organizational process (Lane et al., 2006).

In the light of the existing models of absorptive capacity and the focus of this study, we developed the framework below with the circled part as the scope of this study. In the framework, we consider identification, i.e. the ability to recognize and understand the value of external assets, to be the first element of absorptive capacity. Moreover, acquisition and assimilation, the two elements of potential absorptive capacity which were originally raised by Zahra and George (2002), should be studied separately. The ability to identify and acquire external valuable assets is largely to do with firms’ knowledge base, however, the assimilation, transformation and exploitation are affected by organizational routines (Zahra and George, 2002).

In order to have a deep investigation, we narrow the scope of this study to examine the process before formal assimilation, i.e. the identification process and acquisition
process. Therefore, the framework combines the model raised by Lane et al. (2006) and Todorova and Durisin (2007) with the particular focus on exploratory learning (see Figure 3.5 below). Accordingly, firms’ absorptive capacity in the dimensions of identification and acquisition is our concern relating to examining the impact of absorptive capacity on the outcomes of the strategic asset-seeking events.

Figure 3.5: The three processes of absorptive capacity model for this study

3.2.2 Firm level construct vs. dyad level construct

Since AC was introduced at the organizational level, it has been a key determinant in studying inter-organizational learning (Kim and Inkpen, 2005). Apart from the reconceptualization of the components of the construct, arguments have also been raised on reconceptualising absorptive capacity, which was formerly regarded as a firm level construct as a dyad-level learning construct.

Lane and Lubatkin (1998) studied the application of absorptive capacity in cooperation activities, where a teacher i.e. the knowledge possessor, and student that is the knowledge seeker, are involved. They argued that the received definition of absorptive
capacity indicated an ‘equal capacity’ of firms to learn from all organizations. However, based on Cohen and Levinthal’s statement that learning performance is greatest when the object of learning is related to what is already known, it indicated that absorptive capacity, which was originally considered as a firm level construct should be inherently a relative construct (Lane et al., 2006). They introduced a new dimension, i.e. relative absorptive capacity which represents the distance between the two firms in terms of capabilities and knowledge base.

The basic assumption of relative absorptive capacity is that the similarity between partner firm’s knowledge base and organizational characteristics influence the learning outcome. The role of relative absorptive capacity in alliance learning has been supported by empirical studies. Lane and Lubatkin (1998) tested the new construct through studying alliances between biotechnology firms and pharmaceutical firms in the US. The finding reinforced the conclusion that in an alliance, firms’ learning outcome should be a learning dyad-level construct which depends on ‘both firms’ knowledge base,’ ‘organization structures’ and ‘dominant logics’. The finding shows that relative absorptive capacity measure is more powerful than the widely received measurement of absorptive capacity, i.e. R&D expenditure in alliance learning settings. In the same vein, Lane et al. (2001) applied relative absorptive capacity to explain inter-organizational learning in international joint venture settings. They found that a joint venture’s relative absorptive capacity is positively related to its ability to understand valuable assets from its parents. Similarly, Kim and Inkpen (2005) studied the role of absorptive capacity in cross-border R&D alliances. They classified the absorptive capacity into relative absorptive capacity and absolute absorptive capacity, and argued that the effectiveness of learning is influenced not only by the a firm’s absolute absorptive capacity, but also the relative absorptive capacity which is the absorptive capacity compared with its partners i.e. the distance between the two firms in terms of capabilities and knowledge base. They also pointed out that a firm’s relative absorptive capacity can be reflected by technology overlap and prior ties with the partner in the context of R&D cross border alliances.
3.2.3 Determinants of absorptive capacity

Many studies have been conducted to offer a conceptual level (Grunfeld, 2003; Lane et al., 2006; Todorova and Durisin, 2007; Zahra and George, 2002) and also an empirical level (e.g. Jansen et al., 2005; Stock et al., 2001; Tu et al., 2006; Vinding, 2006), looking at the composition (or the antecedents) of a firm’s level of absorptive capacity, and generating measurements for it. Despite the large amount of literature on absorptive capacity, the determinants of absorptive capacity still lack consistency and comprehensiveness (Van den Bosch et al., 2003; Murovec and Prodan, 2009; Camisón and Forés, 2010).

Cohen and Levinthal (1990) argued that the firms’ absorptive capacity is a function of the firms’ level of prior related knowledge, with special emphasis on R&D capabilities of the firm. Inspired by Cohen and Levinthal’s (1989,1990) proposition, many studies focus on R&D related measurements as the most frequently adopted indicator to a firm’s absorptive capacity level, especially in quantitative studies (e.g. Stock et al., 2001; Murovec and Prodan, 2009). However, criticism has been raised to point out the limitation of using R&D alone as the representation of a firm’s absorptive capacity level (Yeoh, 2009). Moreover, these measurements do not sufficiently explore the rich and seminal work from Cohen and Levinthal (Todorova and Durisin, 2007; Murovec and Prodan, 2009). A comprehensive analysis calls for more indicators.

There are a number of studies which have attempted to offer different indicators to measure the level of a firm’s absorptive capacity apart from R&D (Jansen et al., 2005; Lane et al., 2001; Liao et al., 2007; Tu et al., 2006; Wong et al., 1999). Among these indicators, organizational mechanisms have been one of the most added indicators to influence firms’ absorptive capacity except for firms’ prior knowledge base (Zahra and George, 2002; Jansen et al., 2005; Lewin et al., 2011). Researchers generally argued that organizational mechanisms associated with coordination capabilities, such as job rotation or cross-functional interfaces, can increase firms’ potential absorptive capacity,
whereas social integration mechanisms can lower the barriers for information sharing and knowledge exploitation, and therefore increase the efficiency of knowledge assimilation and transformation.

With regards to the focus of this study, i.e. firm’s abilities to identify and acquire external assets, they are largely a function which occurs between external environment and firm’s boundary (Fosfuri and Tribo, 2008). Factors such as social integration and communication, which emphasized firms’ internal routines and processes are highly related to firms’ realized absorptive capacity, thus play a limited role in determining firms’ ability to acquire external assets. Given that there is no extant literature specifically on the determinants of identification and acquisition, a specific discussion on the determinants of absorptive capacity on the dimensions of evaluating external assets and acquiring external assets is considered necessary.

In order to do this, we go back to Cohen and Levinthal’s classic work and review the determinants from the origins. Cohen and Levinthal (1990) argued that a firm’s absorptive capacity level is largely a function of its prior knowledge base. They further stated that being exposed to external sources of assets is not sufficient for firms to acquire the assets, absorptive capacity is also influenced by firms’ intensity of learning effort. Kim (1998) adopted this view and commented that firms’ absorptive capacity is a function of firms’ prior knowledge base and learning effort. Previous literature on antecedents of potential absorptive capacity (including acquisition and assimilation) has also emphasized firms’ prior knowledge base. Thus, for the purpose of this study, it can be generally considered that the process of identification and acquisition rely on two broad aspects: firm’s prior knowledge base and efforts spent (Cohen and Levinthal, 1990; Kim, 1998; Zahra and George, 2002). A detailed review is conducted below.

3.2.3.1 Prior knowledge base

Firms’ knowledge base covers a wide range of knowledge. According to Cohen and
Levinthal (1990), it refers to ‘basic skills or even a shared language’ at the basic level; it also includes ‘knowledge of the most recent scientific or technological developments in a given field’ (Cohen and Levinthal, 1990: P128). The prior related knowledge should have similar characteristics to a knowledge base, i.e. shared knowledge for new knowledge to be transferred and acquired smoothly from outside sources into the inside of the firm. Meanwhile, the knowledge base has to be diversified to some extent so as to enable creation and new associations or linkages. Literature has suggested a number of elements which contribute to firms’ knowledge base. I will review several main indicators in the literature so as to understand the construct and provide guidance for the empirical work.

1. **R&D intensity**

Cohen and Levinthal (1990) argued that absorptive capacity can be a by-product of R&D investment. In existing literature, the R&D capabilities have been widely connected to the level of absorptive capacity and R&D intensity has been one of the most used proxies to represent firms’ R&D capabilities. However, the domain-specific nature of absorptive capacity determines that various aspects of knowledge contribute to different aspects of absorptive capacity level. Thus, R&D intensity is an important element to reflect firms’ technological capabilities; however, R&D alone is not sufficient to reflect firms’ overall absorptive capacity (Murovec and Prodan, 2009).

2. **Human capital**

A few studies go beyond R&D as the traditional indicator and suggest that human capital is one of the important contributors for firms’ absorptive capacity (Kneller and Stevens, 2006; Mangematin and Nesta, 1999; Vinding, 2006; Murovec and Prodan, 2009). The skill levels of individual, trained R&D personnel as a per cent of population and trained engineering graduates have been mentioned as the main indicators to reflect individual absorptive capacity level (Zahra and George, 2002). Education and training are regarded as two important means to increase the stock of knowledge in the organization (Mangematin and Nesta, 1999).
As a matter of fact, in Cohen and Levinthal’s original work, the role of an individual’s knowledge base in increasing the stock knowledge of the firm has already been well illustrated. Cohen and Levinthal (1990) argued that an individual’s knowledge base contributes to an organization’s absorptive capacity. Individual’s absorptive capacity, which is determined by individuals’ prior related knowledge and the diversity of the knowledge background, is the foundation for an organization’s absorptive capacity. Individuals should possess critical knowledge which refers to substantive knowledge such as technical knowledge, and also be aware of where useful complementary expertise resides within and outside the organization. This sort of knowledge can be knowledge of who knows what, who can help with what problem, or who can exploit new information. This knowledge can be gained through valuable networks such as close relationships with buyers and suppliers, with local organizations, and firms’ information gathering centres and so on. Individual’s awareness of others’ capabilities and knowledge will be strengthened as an organization develops a broad and active network of internal and external relationships. Due to the path-dependent nature of absorptive capacity, absorptive capacity is cumulative, therefore, cannot be built up immediately. Literature has suggested some means to build up an individual’s absorptive capacity. For instance, Japanese firms increase employees’ individual absorptive capacity through job rotation to broaden their knowledge breadth and depth so as to be able to discover and acquire new external valuable knowledge and are better able to exploit the new knowledge.

3. Relative absorptive capacity

In a dyadic relationship, knowledge about foreign partners is considered to be an important component for firms’ knowledge base (Lane et al., 2001). As mentioned in the previous section, Lane et al. (2001) studied the learning performance in international joint ventures, and introduced the notion of relative absorptive capacity. Relative absorptive capacity refers to the distance between the two firms in terms of capabilities and knowledge. Based on this concept, they suggested that the familiarity with knowledge of foreign partners provides a shared knowledge base, which would
help firms to acquire the assets. Meanwhile, the cross-culture context also requires firms to have knowledge on culture. Tarique and Caligiuri (2009) studied the influence of absorptive capacity in the context of cross-cultural training and found that firms’ previously accumulated cultural knowledge affects the effectiveness of trainees to absorb new knowledge. They suggested that when a new culture is involved, the prior accumulated cultural knowledge is essential for an effective knowledge acquisition. Therefore, in a cross-culture context such as Chinese firms’ international strategic asset-seeking, familiarity with foreign partners and foreign culture are deemed to be important elements composing firms’ knowledge base.

4. Experiential learning

The path-dependent characteristic of absorptive capacity indicates an incremental process for firms’ accumulation of absorptive capacity. It has been suggested that the knowledge base can be accumulated through experience-based learning (Zahra and George, 2002; George, 2005; Fosfuri and Tribó, 2008). Zahra and George (2002) pointed out two means for experiential learning: interaction with external knowledge sources and experience with knowledge seeking.

The external knowledge which comprises the firms’ prior knowledge base is considered to have a significant influence on firm’s potential absorptive capacity. Firms can interact with external knowledge through various means including arms’ length contracts, acquisition, purchasing, inter-firm relationships, such as R&D collaborations, alliances, and joint ventures, and so on. They can learn from and with partners, suppliers, customers, competitors, and consultants (Lewin et al., 2011). Being exposed to external knowledge sources, firms will be able to have chances to contact this knowledge, thus build up the breadth of their knowledge base. This is critical for firms to be able to value external assets. Matusik and Heeley (2005) suggested that the firms’ contact in terms of level of and intensity of contact with external environments affects the ability of the firm to absorb and assimilate external knowledge. Therefore, exposure to external knowledge is an important means for firms to accumulate their knowledge.
base. The breadth and depth of the exposure is positively related to firms’ intent to explore knowledge. With respect to knowledge seeking experience, Zahra and George (2002) argued that past knowledge seeking experiences would affect the locus and direction of firms’ knowledge seeking. Firms are more likely to search for knowledge in areas where they had experiences before (Christensen, 1998; Cyert and March, 1963). By exposure to external environments, and gaining from previous knowledge seeking experiences, firms can accumulate knowledge base.

5. **Buying from external sources**

Cohen and Levinthal (1990) also considered the possibility for an organization to buy its component of absorptive capacity through purchasing from the market, hiring new personnel, contracting for consulting services and so forth. Existing studies mainly focus on internally developed components of absorptive capacity and not on those that can be bought since the effectiveness of the latter option has been considered to be limited. Scholars argued that most of the valuable assets are firm-specific therefore are hard to be purchased via the market (Teece et al., 1997). The integration of these purchased components can also be problematic. For instance, to integrate new hired R&D talents from other companies, the new technical staff are required to have high technical capabilities and meanwhile understand the organizations’ needs, procedures and routines (Cohen and Levinthal, 1990). However, Camisón and Forés (2010) in their recent study found that extramural R&D can increase firms’ absorptive capacity under the condition that the firm already has absorptive capacity. Therefore, buying from external sources could also be a means for firms to accumulate knowledge base and in turn increase its absorptive capacity.

### 3.2.3.2 Intensity of effort

Apart from prior knowledge base, the intensity of efforts firms make is another important determinant of absorptive capacity (Cohen and Levinthal, 1990; Kim, 1998; Zahra and George, 2002). Cohen and Levinthal (1990) suggested that to develop an
effective absorptive capacity, firms firstly need to possess relevant knowledge, besides the intensity of effort is critical. However, existing literature on intensity of effort is scant. Kim (1998) argued that merely exposure to external knowledge sources is insufficient for firms to gain assets; intensity of effort is positively related to the quality of the acquisition. This is because firms need to put considerable resources and energy to learn new skills before complex problems can be addressed (Cohen and Levinthal, 1990). Zahra and George (2002) also stressed the role of spending effort during the acquisition process, i.e. the process of importing external knowledge into firms’ boundaries. Firms can build the requisite capabilities to gain the new assets or learn new skills through making efforts (Kim, 1997).

Borrowed from Kim’s definition, intensity of effort refers to the resources and energy that firms commit to gain the external assets. Implied by literature, the intensity of effort is related to two factors, i.e. attitude towards change and triggers.

In their recent work, Murovec and Prodan (2009) suggested that firms’ attitude towards change influences firms’ absorptive capacity, in that the attitude towards change would influence an individual’s perception about external assets and consequently influence their willingness to acquire external assets. Firms might be aware of the assets but reluctant to make efforts because of their negative attitude towards change. In Cohen and Levinthal (1990)’s work, they also indicated the relevance of attitude towards change to firms’ absorptive capacity. In Cohen and Levinthal’s paper, the concept of gatekeeper has been raised. The gatekeeper can be a key person, or a group of people who stand in the interface between external knowledge and firms’ internal side; he is critical in influencing firms to make efforts. The gatekeeper’s knowledge base decides whether or not it can detect valuable information to the firm from outside sources, moreover, its incentives of detecting impact the extent to which the gatekeeper would like to make efforts. However, the notion of gatekeeper has not received much attention in extant literature.
Trigger is considered as another force which can induce or intensify a firm’s effort to seek external assets (Huber, 1991; Winter, 2000). Triggers refer to the activities or special events which stimulate a firm to make investment in building up its absorptive capacity (Zahra and George, 2002). It includes external triggers and internal triggers. Radical innovations, technological shifts, emergence of a dominant design and changes in government policy belong to external triggers (Zahra and George, 2002), whereas organizational crises, such as performance failure, or important events that redefine a firm’s strategy belong to internal triggers. Rosenkopf and Nerkar (2001) suggested that radical technological shift would stimulate firms to make investment in getting information relevant to the new technology. Similarly, crises threaten a firm’s existence, thus possibly stimulating learning (Winter, 2000) and leading it to explore, acquire and internalize external knowledge (Kim, 1997). With respect to this, in Kim’s study, he found that the Korean company Hyundai Motors strategically created an organizational crisis as an effective means to stimulate firms’ intensity of efforts and therefore increase its absorptive capacity (Kim, 1998).

In summary, existing literature provides several indicators to reflect a firm’s level of absorptive capacity. In terms of the scope of this study, the following list, specifically with regards to identification and acquisition, can be generated based on literature, to serve as general guidance for this exploratory study.
Table 3.1: List of indicators for absorptive capacity in the dimensions of identification and acquisition

<table>
<thead>
<tr>
<th>Prior related knowledge base</th>
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<tr>
<td>- Technological knowledge (R&amp;D investment)</td>
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<tr>
<td>- Individual’s absorptive capacity (Human capital)</td>
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<tr>
<td>- Relative absorptive capacity (in dyadic relationships):</td>
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<tr>
<td>(Familiarity with foreign partner and familiarity with foreign culture)</td>
</tr>
<tr>
<td>- Experiential learning</td>
</tr>
<tr>
<td>(Exposure to external knowledge sources and knowledge seeking experiences)</td>
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<td>- Buying from external sources</td>
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<table>
<thead>
<tr>
<th>Intensity of effort</th>
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<tr>
<td>- Attitudes towards change</td>
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<td>- Triggers</td>
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3.3 Conclusion

In this chapter, we have reviewed the definition and dimensions of absorptive capacity, through which we identified the scope of this study, i.e. the exploratory process which occurs before formal assimilation and transformation. In addition, we have reviewed the determinants of absorptive capacity in the dimensions of identification and acquisition. The aim of this study is to demonstrate the role of absorptive capacity in strategic asset-seeking internationalization rather than providing new measurements for this construct; we examined the relevant measurements of absorptive capacity centring on two broad aspects, viz. prior knowledge base and intensity of effort, and generated a list which would serve as guidance for our empirical study. Through the above review of the literature, together with chapter 2, we can develop an integrated framework as shown below.
Figure 3.6: Conceptual framework for this study

Note: the broken line is beyond the scope of this study.

The general proposition in this study is that absorptive capacity acts as the firm’s internal capability that influences its strategic asset-seeking through internationalization. In chapter 2, we have reviewed several streams of literature on SAS internationalization theories, which suggested a high relevance of absorptive capacity to SAS events.

Firstly, the IDP implies that strategic asset-seeking FDI is a high order investment which usually takes place in stage 4 and 5 countries. However, outward SAS international activities by stage 3 countries are exceptional. This implies the requirements of certain firm level capabilities for SAS activities to take place. Moreover, a review of extant studies on SAS internationalization activities has also indicated the relevance of firms’ absorptive capacity to their strategic asset-seeking activities. Specifically, existing empirical works on SAS generally focus on MNEs from advanced countries and technology-intensive industry. The context of these studies actually implies a high level of absorptive capacity of these firms. With respect
to MNEs from NICs, firms’ intentions to undertake SAS FDI are argued to be positively related to their technological capabilities and other proprietary assets they possess. In reference to Chinese MNEs which are regarded as firms from stage 3 countries, IDP theory suggested that their SAS international activity is viewed as an exception rather the rule. Studies on this particular issue have suggested the institutional factors as the main forces to explain this exceptional phenomenon. Scholars suggested that the government encouragement and entrepreneurs’ ambition are the main forces which stimulate these firms to undertake strategic asset-seeking activities, however, they have overlooked the absorptive capacity level of these firms.

Absorptive capacity as an important competitive advantage determines a firm’s ability to exploit externally sourced knowledge, in the context of strategic asset-seeking, and determines how much benefit firms can get through strategic asset-seeking activities. Therefore, it is essential to integrate absorptive capacity into understanding strategic asset-seeking activities, especially on the issue of Chinese enterprises’ SAS internationalization. However, how absorptive capacity influences SAS remains underdeveloped. Through reviewing literature on absorptive capacity, we can find the connection.

Followed by Lane et al.’s (2006) model, absorptive capacity encompasses three stages, i.e. explorative learning stage (including identification and acquisition); transformative learning stage (including assimilation or transformation, depending on the nature of the acquired knowledge); and exploitation stage. In the context of SAS internationalization, firms need to first identify the external assets as the target, then bring the assets into the firm’s boundary.

This process is highly related to the explorative learning stage in the context of absorptive capacity. Specifically, firms need to seek and evaluate externally sourced assets. Firms’ ability to recognize and evaluate the assets determines the quality of assets which firms target in the first place. Thus, we define identification as firms’
ability to identify the appropriateness of external assets. Once the firm has identified the proper target in their perception, firms need to take the externally located assets into the firm’s boundaries, through strategic alliances, acquisition or other means. They may need to make efforts and build up the requisite capabilities so as to bring in the externally located assets into the firm’s boundaries (Zahra and George, 2002). This is the process of acquisition suggested by literature. Thus, we can employ absorptive capacity in the dimensions of identification and acquisition as the underpinning factor to explain the outcome of SAS events in terms of whether firms target at right assets and successfully acquire them so as to allow for the formal assimilation.

Furthermore, as reviewed in section 3.2.3, literature has also suggested possible determinants underpinning firms’ absorptive capacity, especially the ability to identify and acquire. Taking these elements together, we can better understand the role of absorptive capacity in firms’ SAS internationalization activities.

Thus, this literature serves as foundation to understand the linkage between absorptive capacity and SAS activities. Two components of absorptive capacity, i.e. ability to identify the appropriateness of external value and ability to acquire the assets, have been considered as two capabilities that are closely related to the scope of this study on strategic asset-seeking through internationalization. The question of the specific roles of these capabilities in underlying strategic asset-seeking FDI by Chinese firms will be explored in the remaining part of this thesis.
Chapter 4

METHODOLOGY

4.1 Introduction

This chapter specifically deals with the methodological issues of conducting this study. As briefly discussed in the introduction chapter, the nature of this research is an exploratory study. Thus, an inductive qualitative case study is adopted as the most suitable approach to address the central question of this research, i.e. how firms’ absorptive capacity as firms’ internal capability underlies Chinese MNEs’ strategic asset seeking activities through internationalization.

This chapter is structured as follows. Firstly, the methodological choice of this study will be justified. This includes justification of the exploratory nature of this study, choice of qualitative paradigm as the appropriate philosophical assumption of this exploratory study, and multiple case study method as the appropriate approach to fulfil the research aim. Next, the issue regarding to case study research design will be discussed. This includes case selection, unit of analysis, data collection and data analysis. Finally, validity and reliability, the two major criteria with regard to assess the quality of research will be carefully discussed.

4.2 Methodology choice of this study

4.2.1 The exploratory nature of this study

In recent years, Chinese firms’ outward investment has attracted more and more attention. Scholars argued that Chinese firms’ outward investment, especially those invested in advanced markets, are motivated to seek for strategic assets so as to address their international disadvantages and strengthen their international competitiveness.
(Cui and Jiang, 2008; Child and Rodrigues, 2005; Deng, 2007). According to IDP, SAS internationalization generally occurs in firms from developed countries, which implies that they have already had a certain level of absorptive capacity to underpin their SAS internationalization. However, China as a developing country in stage 3, its SAS international activities are considered to be exceptional rather than the rule. It is necessary to specifically investigate the effectiveness and absorptive capacity level that underpin Chinese firms’ SAS internationalization. Nonetheless, there are no sufficient theoretical explanations underpinning this phenomenon. The possible variables and the causal relationships between them in the context of China are unclear and insufficient to allow us to develop a hypothesis. Due to the nature of our study, it falls in the category of an exploratory study.

On one hand, prior research on SAS events has generally focused on firms’ ‘desire’ as the motivator driving firms to engage in SAS events, however, overlooking firm level capabilities. It viewed SAS as a means by which firms from both advanced markets and developing countries tended to gain valuable assets they needed from external sources so as to strengthen their international competitiveness. Yet the effectiveness of these SAS events, and what is more, the firm-level capability which may act as underlying forces of these events, have been largely overlooked. Absorptive capacity, a firm level capability pertaining to gaining assets from external sources, is by nature linked with firms’ SAS activities. Although studies have been conducted on SAS investment in IB literature, and the construct absorptive capacity has also been well studied, there are no direct theories or well established frameworks with regard to how to integrate absorptive capacity into understanding SAS internationalization. There is some literature implying the relevance of absorptive capacity to SAS events, however, it does not explicitly and systematically investigate it. For example, it is not clear that how different dimensions of absorptive capacity influence the outcome of SAS events respectively, and how different determinants underpin different dimensions of absorptive capacity in the SAS event.
On the other hand, existing SAS theories are mainly derived from firms from developed countries. There are insufficient theories to specifically explain the outcome of Chinese firms’ SAS events. The peculiarity of Chinese multinationals represented by predominantly state-owned enterprises and with strong influence from government (Morck et al., 2008; Yeung and Liu, 2008) requires a specific investigation on this problem rather than relying on theories and models derived from advanced markets.

To sum up, our study addresses this particular literature gap by adopting an exploratory approach and attempts to generate insights for EMNEs. This is in accordance with the essence of exploratory study, which is to better understand a problem when few sophisticated theories have been undertaken in this area (Mendenhall et al., 1993; Osland and Osland, 2001; Wright, 1996).

4.2.2 The choice of qualitative research for this study

Two clusters of distinctive research strategies are acknowledged by researchers, i.e. qualitative research and quantitative research (Bryman, 2004, 2008; Creswell, 2003). These two approaches are different in strengths and logics, thus are best used to fulfil different research purposes and address different research questions (Maxwell, 1996: P17). One obvious difference between quantitative studies and qualitative studies is that the former stresses quantification in the collection and analysis of data but the latter does not (Bryman, 2008). Yet, researchers argue that the difference between qualitative research and quantitative research should go deeper to the fundamental epistemological level (Bryman, 2008). An epistemological issue ‘concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline (Bryman, 2008: P13)’.

Generally two stances of epistemologies can be identified, positivism and interpretivism. Positivism ‘advocates the application of the methods of the natural sciences to the study of social reality and beyond.’ (Bryman, 2008: P13). Interpretivism,
in contrast, stresses ‘the understanding of the social world through an examination of
the interpretation of that world by its participants’ (Bryman, 2008: P13).

Quantitative methods is based on a natural science model and on positivism in
particular. It adopts a deductive approach characterized by starting from established
theories and using highly structured procedures and statistics with the aim to test a
theory (Yang et al., 2006). Quantitative study emphasizes numeric analysis instead of
rich description (Denzin and Lincoln, 2005: P12). It employs statistical figures and a
relatively large population and focuses on testing hypotheses. It is suitable for dealing
with ‘statistics, amount, intensity, causal relationships between variables, the
quantitative nature of the research target’ (Denzin and Lincoln, 2005: P10).

In contrast, the qualitative methodology is underpinned by the interpretivism paradigm.
It uses an inductive approach, which refers to theory as the outcome of observations to
understand social problem (Bryman, 2004). Qualitative methods focus on using words
and detailed information from informants in order to get a complex and holistic picture
about the social phenomena in question. It emphasizes ‘the meaning rather than the
frequency of a phenomenon by studying it in its social context.’ (Denzin and Lincoln,
1994: P6). It interprets an event or the research target by analysing its qualities,
processes, and meanings (Maxwell, 1995; Buckley and Chapman, 1996) rather than its
amount, intensity or frequency (Denzin and Lincoln, 2005: P10). Therefore, qualitative
methods are most suitable to understand the meaning of the events and participants’
perspectives, the context and process, and also identify unanticipated phenomena and
influences, and develop causal explanations (Maxwell, 1996: P17). As suggested by
Miles and Huberman, ‘Qualitative studies ultimately aim to describe and explain (at
some level) a pattern of relationships’ (Miles and Huberman, 2004: P431).

In the international business field, qualitative methods have been used to generate
theory and new insights (Ghauri, 2004). Given the nature of our research, i.e. theory
generating rather than theory testing, an inductive qualitative approach is the
appropriate methodology (Yamin and Sinkovics, 2006). Besides, qualitative methods can take advantage of rich data and in this way allow the researcher to obtain more meaningful results about soft inter-relationships between core factors. Through close contact with respondents whose perceptions are critical for providing deep insights to unveil such a sensitive phenomenon, qualitative study would also allow the researcher to get rich information about the given issue that is complex, relatively new and with few mature theories.

4.2.3 The choice of case study for this study

Case study has been chosen as the appropriate method for this study. Yin (2003: P1) differentiates case study from other research strategies by arguing that the most distinctive characteristic of case study is that it allows investigators to “understand complex social phenomena,”, to “retain the holistic and meaningful characteristics of real-life events” (Yin, 2003: P2). Case study generally employs multiple data collection methods such as interviews, archives, documents, observations (Yin, 2003; Eisenhardt, 2002) and can employ qualitative data, quantitative data or both. Case study can answer different types of research questions, e.g. exploratory, explanatory and descriptive (Yin, 2003; Ghauri and Gronhaug, 2002). It can be used to test theory (Pinfield, 1986; Anderson, 1983) or generate theory (Eisenhardt and Graebner, 2007).

In order to evaluate if case study is the suitable choice for this study, three conditions should be considered i.e. type of research questions, extent of control over behavioural events, and degree of focus on contemporary events (Yin, 2003). Case study is not suitable to address ‘how often’ and ‘how many’, and questions about the relative empirical importance of constructs. In contrast, case study is the most suitable to answer “how” and “why” questions in unexplored research areas (Edmondson and McManus, 2007). When the research question is ‘how’ and ‘why’, a case study method is recommended (Ghauri and Gronhaug, 2002). Thus, the research question in this study: ‘how does absorptive capacity influence the outcome of emerging economic
firms’ strategic asset-seeking through internationalization?’ suggests that case study is a suitable method. Case study is proposed as allowing the investigation of a complex context where there are many variables. The firm-specific factor in terms of absorptive capacity in this study is a complicated construct which can involve many variables. Absorptive capacity is a rich construct which contains many aspects. It should not be measured simply by quantified indicators such as R&D intensity. Case study permits a comprehensive understanding about the multi-dimension construct absorptive capacity without being constrained by rigid quantified measurement. The complicated interrelated relationships among these factors and the context can be best manifested and illustrated through case study. Besides, the respondents’ insights can be best grasped through case study, while survey cannot capture in-depth insights of respondents.

Moreover, the specific Chinese context also highlights the call for case study. The Chinese MNEs’ strategic asset-seeking internationalization is a recent phenomenon and the researcher has little or no control over behavioural events which makes case study an appropriate method, as case study is recommended when studying contemporary issues with little or no control over behavioural events. In addition, the strategic asset-seeking investment is not common among the majority of Chinese firms. Even though it has received much attention in terms of academic fields, it remains the preserve of a relatively small number of leading Chinese firms (Sutherland, 2009). It has not spread to a vast majority of Chinese firms. The limited candidates make a large scale survey impossible, and also make case study the appropriate approach.

The exploratory nature of this study also suggests case study as the most suitable approach. Eisenhardt argued that case study is ‘particularly well-suited to new research areas or research areas for which existing theory seems inadequate.’ (Eisenhardt, 1989b: P548-9). Case study has also been used by many studies in various fields as a powerful means to generate theory (e.g. Greenwood and Suddaby, 2006; Bingham and Eisenhardt, 2006). The rich data of cases enables the researcher to generate theories
inductively rather than just testing theories (Eisenhardt and Graebner, 2007). In the international business field, case study is a major method chosen by qualitative researchers when the research is exploratory and theory building (Ghauri, 2004).

Multiple-case studies are employed in this study. Compared with single-case studies which can richly describe the existence of a phenomenon (Siggelkow, 2007), multiple-case studies typically provide a compelling and robust base for theory building (Yin, 1994). The rationale behind multiple case study is replication logic (Eisenhardt, 1989a; Yin, 2003), i.e. each individual case is treated as an experiment. Through comparing individual cases, we can clarify whether an emergent finding is simply idiosyncratic to a single case or consistently replicated by several cases (Eisenhardt, 1991). Multiple case studies enable comparison of cases, and therefore provide compelling and robust results.

In summary, case study method can match our purpose of generating theories from strategic asset-seeking internationalization from emerging MNEs, a research area lacking sufficient and systematic theoretical explanations. Besides, the case study allows for multiple sources and enables the researcher to draw insights from a rich source of data. Therefore, based on the characteristics of case study and the nature of my research, case study is deemed to be the most suitable research method for this study.

One of the issues that receive the most debate with regard to case study method is the credibility of generalizations made from case study findings (Denscombe, 2000). To tackle the concern of generalization from the case study method, one has to understand the difference between statistical generalization and analytical generalization. For quantitative research, the generalization is statistical generalization, namely, from sample size and sample frame etc. However, for qualitative research in this study, the generalization is analytical generalization in which the generalization is about theoretical proposition rather than population (Hartley, 2004; Cassell and Symon, 2006).
This research is the pioneering work, which explores the relationship between absorptive capacity and strategic asset-seeking behaviours, it does not aim for statistical generalization but to extend theories and provide some insights for other firms in a similar context.

4.3 Research design

Research design is a logical plan that links research questions to research conclusions (Yin, 2003: P20). A good research design consists of a clear focus on the research question and objectives of the study, collecting the information that are most suitable to shed light on these questions and choosing methods that are most effective to collect relevant data (Denzin and Lincoln, 2005: P10; LeCompte and Preissle, 1993: P30). In addition, it entails a systematic consideration of how to analyse the results (Yin, 2003: P21). Informed by the central research question, we will discuss the above issues from the following three aspects.

4.3.1 Case selection

An explicit sampling frame is needed to guide the case selection and enhance the reliability of the study. The sampling frame should be guided by research questions and conceptual framework (Maxwell, 2005). Unlike quantitative study which relies on probability sampling or convenience sampling, the qualitative study is underpinned by theoretical sampling (Eisenhardt and Graebner, 2007), also termed as purposeful sampling (Patton, 1990) or criterion-based selection (LeCompte and Preissle, 1993). Theoretical sampling refers to cases that are deliberately selected because they are particularly suitable for illuminating and extending relationships and logic among constructs (Yin, 1994; Maxwell, 2005). According to the research question and literature review conducted in previous chapters, this study generates the following criteria for selecting cases.

i. The information technology and electronic appliances’ industry has been
selected as the focal industry

Strategic asset-seeking internationalization is likely to happen in knowledge- and information-intensive sectors (Dunning, 1998). As an emerging economy, Chinese enterprises’ internationalization is still at a preliminary stage (Child and Rodrigues, 2005). The information technology and electronic sector is one of the most internationalized industries in China (Child and Rodrigues, 2005). Therefore it is reasonable to consider that the most internationalized industries are likely to have more qualified cases available. Besides, according to the institutional perspective, firms in the same industry and in the same country are supposed to be influenced by the same institutional environment (Deng, 2009). Focusing on the same industry reduces the influence from other contingencies and provides a clearer focus on how firm specific factors influence strategic asset-seeking internationalization. Therefore, the research objectives can be better met by a single industry context.

ii. Large leading Chinese firms have been chosen as the candidate cases.

According to Deng (2004; 2007), the dominant sources of Chinese outward FDI are large and strong Chinese enterprises who ‘have specific resource endowments but may need additional resources to be competitive in particular markets’ (Deng 2007: P77). Child and Rodrigues (2005) also stated that large leading Chinese enterprises are the main players in strategic asset-seeking internationalization. Besides, the Chinese government has implemented ‘going out’ strategies and encouraged strong Chinese enterprises to take advantages of foreign resources (Buckley et al., 2007). The current evidence on Chinese enterprises’ SAS internationalization mainly focuses on high profile big Chinese enterprises (Sutherland, 2009). Literature has also suggested that the SAS internationalization is still mainly concentrated on small-scale Chinese firms rather than large ones; it remains the preserve of a relatively small number of leading Chinese firms (Buckley et al., 2008). Therefore, leading large Chinese enterprises are considered to be more likely to undertake strategic asset-seeking internationalization activities. Thus, we targeted large leading Chinese owned firms in information
technology, electric and electronic industry.

An important issue of doing multiple case studies is how many cases to include. According to Eisenhardt (1989a), the ideal number of cases for multiple case studies is four to ten. Evidence drawn from few cases, 2 or 3, is considered to be less convincing and insufficient for theory generation; however, too many cases, e.g. more than 10, would generate voluminous data which can be difficult to cope with. With this focus, I started the first round of screening. Initial information was gathered through checking the ranking of top 100 strong electronic companies in China. The initial case screening was conducted by checking the company website, and business reports from the media.

The initial data collection allows the researcher to get a general understanding about each individual company’s business activities, international activities and the current status of their internationalization. Then I screened these companies according to whether they have direct investment in advanced countries or cooperate with companies from advanced countries. I also talked to a government official and an investment bank analyst who are knowledgeable on this issue to ask for their recommendation about suitable cases. Through the above efforts, we compiled a list of eight companies as candidate cases.

4.3.1.1 Gaining access

Having identified the 8 possible suitable cases, I started to make efforts to gain access to information on case companies starting from 2006. Gaining access to Chinese companies is a hard task. Chinese enterprises are generally unwilling to support external research (Ji et al., 2007). There is lack of a culture among Chinese enterprises to cooperate with individual researchers except those from government institutions. The managers are unwilling to spend time giving information to someone they do not have a connection with. Thus, the interpersonal relationship in China is very important. During the case contact and selection process, personal network has been largely relied
upon. Gaining access to these cases was mainly through the researcher’s personal network: friends and relatives who work in these case companies themselves, who are familiar with people working in these case companies, or those who work in government departments and have connections with these case companies.

Initially I gained access to three of the eight companies; however, in the later stages, one company became uncertain about my study and refused to cooperate for reasons they did not explain. With reference to the other two companies, I did several informal interviews to get basic information about the motives of these companies’ internationalization activities. However, the data could not answer my research question, as these two companies do not show strong evidence for their strategic asset-seeking motivation in their internationalization activities. Their cooperations with advanced MNEs are in the form of low value-added business activities, e.g. OEM. Market-seeking is still the dominant motivation in their internationalization. In their words, ‘our internationalization is still profit-seeking dominated. We have not reached to the level of utilizing internationalization to gain strategic assets.’ ‘We have the intent to gain strategic assets through our internationalization in the future, but now our focus is still profit driven.’ Under this circumstance, I abandoned these two companies.

Among the remaining five candidate cases, one case company refused to cooperate even though I have found a connection in the company.

At the meantime, I also approached China 1 and China 3 based in Beijing where I found connections. Through rounds of communication via phone calls and site visits, I gained access to these two cases which show strong evidence of SAS intents in their internationalization activities. At this stage, I also got responses from the other two companies based in Guangdong Province (China 2 and China 4). China 4 was found to be incurring a huge loss after their strategic asset-seeking activities. As a failed case, this company is especially important for generating theoretical replication (Yin, 2003; Eisenhardt, 2002; Eisenhardt and Graebner, 2007). Therefore, special efforts have been made in order to get access to this company. Finally in January 2009, I got access to the
final two companies (China 3 and China 4) and started data collection.

In this process, key persons of individual organizations (Maxwell, 2005; Silverman, 2000) are critical and very helpful to assist the researcher to find informants. For example, in the case of China 4, the key person is the municipal government official who has connections with China 4. She has a good relationship with managers and staff in the company and also people who had left the company. In the case of China 3, the key person is the manager of the human resource department, as he is familiar with staff and has the power to ask staff to support my research. Meanwhile, he also introduced managers in marketing and overseas departments to me.

Therefore, the case selection is partly influenced by the theoretical sampling criteria and partly by practical issues, i.e. whether we can gain access to companies. Four case companies have been selected in the end. The table below provides a general overview of these four companies.

<table>
<thead>
<tr>
<th>Cases</th>
<th>Main business activities</th>
<th>Established year</th>
<th>Year of first Internationalization</th>
<th>Sales revenue (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China 1</td>
<td>PC based products</td>
<td>1984</td>
<td>2004</td>
<td>14.6 billion USD</td>
</tr>
<tr>
<td>China 2</td>
<td>Telecom equipment</td>
<td>1988</td>
<td>1995</td>
<td>23.3 billion USD</td>
</tr>
<tr>
<td>China 3</td>
<td>Electronic appliances</td>
<td>1984</td>
<td>1990</td>
<td>16.2 billion USD</td>
</tr>
</tbody>
</table>

| 4.3.1.2 Unit of analysis |

The unit of analysis determines what the case is. A case can be an individual or a group
of people or an organization, depending on the nature of the study (Yin, 2003). The focus of our study is the role of absorptive capacity, which is a firm’s internal capability, in a firm’s SAS internationalization events. Therefore, an individual company is the primary unit of analysis. Meanwhile, key SAS events undertaken by these case companies provide supporting evidence to demonstrate the different levels of absorptive capacities of case companies and its influence on the results of their SAS events, therefore, each key SAS event serves as subunit under each case (Yin, 2003). The key SAS events of each case are identified, based on the following two criteria:

a) Each event has a clear strategic asset-seeking motivation and has been suggested by respondents as a typical strategic asset-seeking activity of the company.

b) There is sufficient information available with regard to this event.

According to the above criteria, 10 events have been identified from data. Table 4.2 summarizes the key SAS events of each company. These events are comprised of either outward FDI destined to advanced markets or cross-border strategic alliances with western MNEs. In consequence, the study includes three cross-border strategic alliances, one wholly owned subsidiary and six acquisitions (including two unrealized ones\(^1\) and four realized acquisitions\(^2\).) Table 4.2 lists the information about these events.

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\(^1\)Two unrealized acquisitions have also been included as these events are evidently motivated by asset-seeking intention and can serve as evidence to demonstrate case companies’ absorptive capacity in the dimension of identification.

\(^2\) Two of these four acquisitions are initially joint ventures then case companies fully acquired the joint ventures.
Table 4.2: Unit of analysis: case companies and key events

<table>
<thead>
<tr>
<th>Primary unit of analysis</th>
<th>Subunits</th>
<th>Brief information about the event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1 (China 1)</td>
<td>Key event 1</td>
<td>Acquisition of US 1’s PC unit</td>
</tr>
<tr>
<td>Case 2 (China 2)</td>
<td>Key event 2</td>
<td>Cross-border strategic alliances with UK 1</td>
</tr>
<tr>
<td></td>
<td>Key event 3</td>
<td>Cross-border strategic alliances with UK 2</td>
</tr>
<tr>
<td></td>
<td>Key event 4</td>
<td>Attempted to acquire UK 3</td>
</tr>
<tr>
<td>Case 3 (China 3)</td>
<td>Key event 5</td>
<td>Established wholly owned subsidiaries in US market</td>
</tr>
<tr>
<td></td>
<td>Key event 6</td>
<td>Attempted to acquire US 2</td>
</tr>
<tr>
<td></td>
<td>Key event 7</td>
<td>Cross-border strategic alliances with Japan 1</td>
</tr>
<tr>
<td>Case 4 (China 4)</td>
<td>Key event 8</td>
<td>Acquisition of Germany 1</td>
</tr>
<tr>
<td></td>
<td>Key event 9</td>
<td>Joint venture with French 1’s Colour TV unit then acquired French 1’s Colour TV unit</td>
</tr>
<tr>
<td></td>
<td>Key event 10</td>
<td>Joint venture with French 2’s mobile sector then acquired French 2’s mobile sector</td>
</tr>
</tbody>
</table>

4.3.2 Data collection

In this section, issues about data sources, and data collection techniques used in this study will be discussed.

Triangulation is defined as collecting data from different sources and using different methods (Denzin, 1970). One of the advantages of case study is that it allows for multiple sources of data (Yin, 2003; Ghauri, 2004; Stake, 2008; Denzin and Lincoln, 2008). Yin (2003) identified six main data sources for conducting a case study: i.e. documentation, archival records, interviews, direct observation, participant observation, physical artefacts. Examining the same questions from data collected from different ranges of individuals and settings and using different methods, can improve the validity
of the research, and reduce the risks of systematic bias (Maxwell, 1996: P75). This study employed data from three sources viz. semi-structured interviews from respondents within the case companies, respondents outside of the case companies, and secondary data to achieve triangulation, which consequently strengthens the validity of this study. These data collection techniques used in this study will be discussed in detail in the following section.

4.3.2.1 Semi-structured interview

Semi-structured interviews were chosen in this study as the main sources for data collection. Denscombe (2000) divides interviews into structured interviews, semi-structured interviews and unstructured interviews according to the degree of control exercised by the researcher and the length of the answers allowed by the respondents. In structured interviews, the researcher has a predetermined list of questions and requires interviewees to provide limited answers. The structured interview is typically inflexible and generates standardized answers. It is generally used in quantitative study, whereas, in qualitative interviews, semi-structured interview and unstructured interview are the two main data collection techniques (Bryman, 2001, 2008).

With reference to unstructured interviews, the interviewers do not have a list of questions. They give a general introduction about the topic and let the interviewees develop their thoughts about the particular topic. Compared with unstructured interview, semi-structured interviews require the researchers to compose a list of questions as an interview guide (Flick, 2004; Daniels and Cannice, 2004), which helps the researchers to focus on main themes and also helps the conversation to stay on course. Semi-structured interview is preferred to unstructured interview in this study since we have a clear focus about the investigation (Bryman, 2001, 2008). The list of interview questions can help researchers to make comparison across cases when the multiple-case study method is employed (Bryman, 2001, 2008). In addition to this, semi-structured
interviews are flexible in that they allow interviewees to speak widely about their insights. The answers interviewees provide are open-ended which will provide deep and detailed information about the topic (Flick, 2004).

1. **Respondents**

Respondents from both companies and external sources who are knowledgeable of the case companies’ asset-seeking internationalization activities are included. Respondents in different ranges and different positions are selected to reduce informants’ bias (Maxwell, 2005). Both respondents from headquarters and overseas subsidiaries are included. Since this research deals with the strategic choice of case companies, which is largely determined by headquarters, respondents from headquarters can provide valuable information because they are closer to the companies’ decision making. Meanwhile respondents from overseas subsidiaries are also included, because they have been directly involved in SAS activities and therefore can provide detailed accounts on particular events. Former managers who have left case companies are also included. The incumbents may be afraid to provide negative comments about a particular issue; however, interviewing people who have left the company would provide the researcher with more objective opinions about the same phenomenon.

The key respondents in each case company are comprised of:

1. Senior managers who had directly participated in key SAS events, or who were close to the company’s decision making in terms of SAS internationalization.
2. Senior engineers in the R&D department who had participated in key SAS events as technology experts. In events where technological assets were targeted, these respondents had been closely linked to the firm’s SAS decision making in the perspective of technology, therefore can provide detailed information. Besides, these respondents were knowledgeable of firms’ R&D capability which is an important component of firms’ absorptive capacity.
3. Others who had been involved in particular SAS events and had contributed to the SAS events at operational level. These respondents can provide complementary and
detailed information that may be omitted by senior managers.

In this research, I employed guanxi and snowballing techniques (Patton, 2002) to approach and identify suitable respondents. This limits the selection of respondents, and therefore is one of the limitations of this study. However, it is difficult to overcome when doing research in China, especially when big famous Chinese enterprises are concerned. In China, guanxi, i.e. interpersonal relationships (Fan, 2002), plays an important role in virtually all spheres of social life (Gold et al., 2002). Bian (1994) argues that all Chinese live in a web of social relationships. ‘People’s family, kinship networks, work colleagues, neighbours, classmates, friendship circles and even casual acquaintances are the social communities into which they grow and on which they depend…’(Bian, 1994, p.972). Given the difficulties in gaining cooperation in big Chinese enterprises, guanxi is considered to be an effective channel to find appropriate respondents and obtain reliable information (Davies et al., 1995).

In practice, I started my search in my social, educational and work experience networks. My search was focused on identifying contacts that have direct or indirect connections with case companies. I arranged meetings with contacts who were deemed to be capable to introduce or recommend respondents to me. In most cases, the contacts recommended me to respondents via emails or phone calls. In other cases, the contacts introduced suitable respondents to me and gave me their corresponding details. After respondents were identified, I approached them by emailing the background to my work and making phone calls to ascertain interview dates and places. During interviews, other suitable respondents were identified through recommendation and introduction by previous respondents. Through the snowballing technique, the sample of respondents was extended (Patton, 2002). Altogether 31 respondents were identified, among which 27 were respondents from inside companies. Table 4.3 below lists the information of the respondents from each case company as well as respondents outside of case companies.

Specifically, a detailed discussion of how I approached respondents and the relevance
of respondents in each case are presented below.

**Respondents in China 1:**

The key contact in China 1 was Mr. Lee who himself as a senior manager in China 1. Mr. Lee is not an appropriate respondent as he was in charge of financial and real estate investment issues. He has been with the company more than 10 years. A meeting was held with Mr. Lee to introduce the research to him. After hearing the researcher’s proposal, Mr. Lee recommended Respondent 1 as the appropriate interviewee. Respondent 1 has been working in the company for 12 years. She was the assistant of the vice president when the event took place. She has sufficient and valuable knowledge about a key event of China 1 since she was personally involved in key event 1 from making investment decisions, making inquiries and the negotiation process to the time when the acquisition was completed. Respondent 1 also introduced Respondent 3, a senior manager who also had been personally involved in a key event along with Respondent 1, and Respondent 4, a senior engineer who acted as technology expert when undertaking key event 1. Other suitable respondents were identified through another key contact, Ms. Tung. Ms. Tung introduced me to Respondent 2 who was a former senior marketing manager of the overseas division. He has now moved to the US. He experienced the event. He was also one of the team involved in determining whether or not to acquire US 1’s PC unit. He disclosed valuable detailed information about the acquisition. Respondent 5, a senior engineer, was also identified as a suitable respondent. He has been working in China 1 since he graduated from university. He has witnessed and experienced the event. He introduced Respondent 6 in the department of public relationship. Respondent 6 has been in the company since he graduated from university. He is considered to be a suitable informant as he retained a great deal of information about the company. In this way, it is considered that these respondents are suitable respondents and can provide a reliable source of information for China 1.

**Respondents in China 2**

The key person that helped me to get access to China 2 and found suitable respondents
is Ms. Tung. She recommended me to Respondent 1, a former vice director in China 2’s UK market. Respondent 1 was the right person to talk to since she had personally gone through Key events 1 and 2 of China 2, and was very knowledgeable of key event 3 of China 2. She was with the company more than 10 years. She recommended Respondent 3 and Respondent 4 as appropriate respondents to talk to. Respondent 3 possessed and was familiar with a great deal of both general and detailed information about China 2’s major events. Respondent 4 was the marketing manager in headquarters, who witnessed the events. He was aware of headquarters’ strategic considerations towards China 2’s overall internationalization strategies and, in particular, the SAS events conducted in the UK market. Through Respondent 4, I also interviewed Respondent 5, a former member of staff in the marketing department, who had assisted Respondent 4’s work in making investments in the European market. Respondent 6 was a human resources manager, who was involved in key event 3 to offer opinions on gaining talents from UK 3. He was aware of not only general case company information but also issues relating to gaining talents from internationalization.

Apart from this, I also talked to Respondent 2, who formerly worked as marketing manager. He was with the company for 7 years since he graduated from university. He was not involved directly in the SAS events in question. However, he had been very familiar with headquarters’ international marketing strategies and considerations. He was also involved in expanding to Africa and other developing markets. He took part in my interviews, and provided me with information about China 2 and its internationalization in general. He also commented on these SAS events. Respondent 7 has been in the R&D department of a tele-communication technology company for a long time. He had participated in building up the 21CN project in key event 1, and acted as one of the technological experts in key event 3 of China 2. Respondent 8, an engineer in the 3G department in the company for many years, was considered as a suitable respondent as he could provide valuable information about key event 2 of China 2, and first-hand information about China 2’s 3G technology knowledge base.

**Respondents in China 3**
Mr. Xiao is the key contact in accessing China 3. He recommended several respondents to me. Respondent 1 has worked in the company for almost two decades. He used to work as a senior manager of the department of corporate strategy and planning at China 3’s headquarters in Shandong Province. He had taken part in China 3’s major international investment decision makings and witnessed all the three key events of China 3. Respondent 2 was identified as an appropriate respondent as he possessed much data and information about the company’s major activities including the company’s internationalization strategies. Respondent 3, who had been transferred to Beijing from headquarters, worked as senior manager in the department of new and high technology located in a rural district of Beijing. He was familiar with technological issues in these SAS events. Through the snowballing approach, Respondent 4, senior engineer, and Respondent 5, human resource manager were identified as appropriate respondents. They both have been working in the company for around ten years. Respondent 4, who had participated in China 3’s internationalization activities as a technology expert, was considered to be a suitable respondent to comment on China 3’s R&D capabilities in general and technological related issues in Key events 2 and 3. Respondent 5, human resources manager at headquarters, was particularly knowledgeable of China 3’s strategic intent and practical challenges in terms of gaining talents from SAS events.

**Respondents in China 4**

I approached China 4 through two key contacts, Ms. Wang and Mr. Lee. Ms. Wang is a government official. She introduced Respondent 1, who is the secretary of China 4’s vice-CEO. Respondent 1 has been in the office for many years and has accompanied the CEO to attend meetings. He witnessed the whole process of key events 2 and 3 of China 4 and was deemed to be well informed of the company’s investment considerations. Mr. Lee recommended Respondent 2, a former senior manager in China 4, as a suitable respondent. Respondent 2 had been with the company for two decades. He had been involved in several big international investments including key event 1. Respondent 2 is now retired. More suitable respondents were identified through the
snowball technique. Respondent 3, the chief secretary, was in charge of managing the company’s internal information, newspapers and documents. He was recommended as being knowledgeable of the company’s major events and activities. Respondent 4, the assistant manager of the colour TV division, had directly experienced the SAS event 2. Respondent 5, a senior engineer in the colour TV sector, had worked in that department since it was established. These two respondents were considered to be able to provide reliable accounts for key event 2. Respondent 6, the assistant manager of the telecoms division, had participated in the acquisition of French 2. Respondent 7 and respondent 8, who were senior employees in the human resources department, were particularly knowledgeable of issues related to acquiring human resources in key SAS events.

The aim of interviewing respondents in case companies is to get information on the following themes:

a) General background of the company.

b) General understanding about their internationalization history and strategic asset-seeking internationalization events, e.g. aims of these events, the strategic assets case companies aimed to get, results of these events.

c) Detailed information about typical strategic asset-seeking internationalization events, e.g. the decision making process of the event; the linkage between absorptive capacity and the SAS events; the successful factors and failure factors in their views; issues they encountered and how they were resolved.

External experts in my study consist of one government official who is in charges of one of the case companies, and also is familiar with the industry; one investment bank analyst who is familiar with cross-border M&A events by domestic enterprises; one senior financial reporter who has been chasing after the outward internationalization by big Chinese enterprises; and one university scholar who has paid close attention to Chinese firms’ outward internationalization. The aim of the interview is to get their comments about case companies’ SAS events, especially the successful and unsuccessful firm-related factors underlying the SAS events. Similar questions have been asked to external experts. Besides, general comments and recommendations and
their concerns about Chinese enterprises’ SAS internationalization have also been asked. Interviewing external experts helps us to get a holistic picture about the case companies’ SAS events and form an objective view about the results and underlying forces of the SAS events which case companies conducted.

The interview questions are developed in advance and act as guide to make sure the data collection is focused and productive (Daniels and Cannice, 2004) (Please see Appendix A for detailed interview schedule). In the interview process, the researcher may not strictly follow the guide. The order of the questions may be different from interviewee to interviewee, depending on the actual interaction between interviewer and respondent. The questions may be slightly different, however, by and large, all of the themes are covered during the interview. Most interviews (22) lasted between 1 to 2 hours; the rest (9) lasted 40 or 50 minutes. Since respondents were approached through personal connections, they are friendly and willing to provide detailed accounts of the SAS activities, and issues they faced and how they resolved them. In some cases, interviewees were invited to a restaurant or cafe due to their schedule. The relaxed atmosphere encourages respondents to be more open.
Table 4.3: Respondents

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Position of respondents</th>
<th>Date for interview</th>
<th>Location</th>
<th>Approximate Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>China 1</strong> (6 in total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Former assistant of vice president</td>
<td>07-04-2008</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>2</td>
<td>Former senior manager of overseas marketing division</td>
<td>10-04-2008</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>3</td>
<td>Manager of marketing division</td>
<td>11-04-2008</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>4</td>
<td>Senior Engineer</td>
<td>12-04-2008</td>
<td>Beijing</td>
<td>30 mins</td>
</tr>
<tr>
<td>5</td>
<td>Senior Engineer</td>
<td>12-04-2008</td>
<td>Beijing</td>
<td>1 hour</td>
</tr>
<tr>
<td>6</td>
<td>Staff in PR</td>
<td>13-04-2008</td>
<td>Beijing</td>
<td>1 hour</td>
</tr>
<tr>
<td><strong>China 2</strong> (8 in total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Former vice director of overseas subsidiary</td>
<td>27-12-2008</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>2</td>
<td>Former senior marketin manager</td>
<td>20-02-2009</td>
<td>Shenzhen</td>
<td>30 mins</td>
</tr>
<tr>
<td>3</td>
<td>Training centre assistant manager</td>
<td>25-02-2009</td>
<td>Shenzhen</td>
<td>50 mins</td>
</tr>
<tr>
<td>4</td>
<td>Senior Marketing manager in headquarter</td>
<td>26-02-2009</td>
<td>Shenzhen</td>
<td>1 hour</td>
</tr>
<tr>
<td>5</td>
<td>Marketing staff</td>
<td>26-02-2009</td>
<td>Shenzhen</td>
<td>2 hours</td>
</tr>
<tr>
<td>6</td>
<td>Assistant human resource manager</td>
<td>27-02-2009</td>
<td>Shenzhen</td>
<td>50 mins</td>
</tr>
<tr>
<td>7</td>
<td>Senior Engineer</td>
<td>28-02-2009</td>
<td>Shenzhen</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>8</td>
<td>Engineer</td>
<td>28-02-2009</td>
<td>Shenzhen</td>
<td>1.5 hours</td>
</tr>
<tr>
<td><strong>China 3</strong> (5 in total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Senior manager</td>
<td>15-04-2008</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>2</td>
<td>Staff in training centre</td>
<td>25-04-2008</td>
<td>Beijing</td>
<td>50 mins</td>
</tr>
<tr>
<td>3</td>
<td>Senior Manager</td>
<td>23-04-2008</td>
<td>Beijing</td>
<td>2 hours</td>
</tr>
<tr>
<td>4</td>
<td>Senior Engineer</td>
<td>29-04-2008</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>5</td>
<td>Human resource manager</td>
<td>20-04-2008</td>
<td>Beijing</td>
<td>40 mins</td>
</tr>
<tr>
<td><strong>China 4</strong> (8 in total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Assistant of vice CEO</td>
<td>02-03-2009</td>
<td>Huizhou</td>
<td>2 hours</td>
</tr>
<tr>
<td>2</td>
<td>Former senior Manager</td>
<td>05-03-2009</td>
<td>Huizhou</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>3</td>
<td>Chief secretary</td>
<td>06-03-2009</td>
<td>Huizhou</td>
<td>1 hour</td>
</tr>
<tr>
<td>4</td>
<td>Assistant Manager of colour TV division</td>
<td>02-03-2009</td>
<td>Huizhou</td>
<td>40 mins</td>
</tr>
<tr>
<td>5</td>
<td>Engineer in colour TV</td>
<td>02-03-2009</td>
<td>Huizhou</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>6</td>
<td>Assistant manager of telecom division</td>
<td>04-03-2009</td>
<td>Huizhou</td>
<td>2 hours</td>
</tr>
<tr>
<td>7</td>
<td>Human resource manager in telecom division</td>
<td>04-03-2009</td>
<td>Huizhou</td>
<td>1 hour</td>
</tr>
<tr>
<td>8</td>
<td>Staff in human resource department in telecom division</td>
<td>04-03-2009</td>
<td>Huizhou</td>
<td>1 hour</td>
</tr>
<tr>
<td><strong>External respondents</strong> (4 in total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Government official</td>
<td>03-03-2009</td>
<td>Guangzhou</td>
<td>1 hour</td>
</tr>
<tr>
<td>2</td>
<td>Investment banking analyst</td>
<td>06-01-2009</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>3</td>
<td>Senior financial journalist</td>
<td>03-03-2009</td>
<td>Beijing</td>
<td>1.5 hours</td>
</tr>
<tr>
<td>4</td>
<td>University scholar</td>
<td>08-04-2008</td>
<td>Beijing</td>
<td>50 mins</td>
</tr>
</tbody>
</table>
2. Interview bias

Interview bias can generally be categorized into bias in sample, interviewer induced bias and interviewee induced bias (Moser, 1951). Bias in sample in this study mainly relates to incomplete achievement of the selected samples (Moser, 1951). This may be because only the people that can be accessible were interviewed while the people that held valuable information and opinions about Chinese firms’ SAS internationalization were left out. To reduce this type of bias, theoretical criteria have been developed to screen and identify suitable respondents. Meanwhile, more suitable respondents were identified and interviewed during the interviewing of the respondents that were firstly contacted through personal network. Moreover, it is suggested that no more new respondents are needed when respondents could provide no more new information (Guest et al., 2006).

Another type of bias arises from the qualities of interviewers. Interviewers’ characteristics, including gender, age, race, and educational level, may cause direct bias information from the respondent (Moser, 1951). Interview techniques including the interviewer’s particular way of asking questions, probing the answers etc., will also lead respondents to give biased replies. Specifically, bias can stem from re-wording or re-phrasing of questions (Moser, 1951). How the interviewer asked questions may be different each time even though the interviewer is supposed to ask questions in a uniform manner. Interviewer’s subtle changes of questioning, e.g. stress on particular words, inflection of voice etc. can affect respondents’ understanding and thus bias their replies. In addition, interviewers should avoid asking leading questions, since the wording of these questions may cause respondents to provide answers that were considered to be what respondents favoured. In addition, interviewer’s reactions to responses can also bias respondent answer. In order to tackle this type of bias, in this research, the interviewer avoided revealing personal reflections towards answers provided by respondents and tried to respond in a uniform polite interest (Mitchell, 1993). However, as more and more interviews are conducted, the interviewer’s
knowledge about the particular topic will increase. The replies provided by later respondents in each case may have already been provided by earlier respondents. This will unavoidably influence the interviewer’s wordings and reactions in interviews and cause potential biases.

The unbiased answers might be recorded or coded in a biased manner while the data is interpreted. This is because interviewers have to use their own judgment to code data. Interviewer’s knowledge, skills, and experience would influence his/her understanding about the data. This process can lead to bias especially if the reply leaves any room for doubt or misinterpretation or if it is on the borderline between two codes. By keeping the same interviewer, these problems can be minimized (Mitchell, 1993). Incomplete recording of responses can also lead to coding bias. Tape-recording interviews was used in this study as the suggested technique to tackle this bias (Mitchell, 1993).

Bias can also be created by interviewees. Interviewees may fail to give a correct answer. This can be simply because of their poor memory, which is especially important in this research as retrospective data were involved. In order to tackle this bias, the interviewer utilized various sources to check key information, e.g. other interviewees’ responses, documents. Since this study is mainly concerned with strategic level, the informants’ recall turns out to be generally consistent with each other, except for exact figures which were checked with documents. Besides, when informants misunderstand the purpose of interview, this will also lead to unintentionally biased answers. In order to tackle this problem, the interviewer clarified the research objective before the interviews. Techniques were also utilized to tackle other factors that cause the interviewees to give biased information. For example, affirming confidentiality of the interview before it was conducted could dispel the fear of disclosing key information; building trust before formal interview and providing relaxed atmosphere during interviews could reduce the courtesy bias.
3. **Transcription of the interview**

Interviews were tape-recorded when respondents were happy to allow this. The tape recording is very helpful for the researcher to take a record of interview contents, so that the data can be repeated and any important information would not be overlooked (Huberman and Miles, 2002). It also avoids the biases that are caused by relying on human memories which are not reliable and prone to error and partial recall (Huberman and Miles, 2002). In my study, the majority of the interviews were tape recorded, with two interviewees who did not feel comfortable to be recorded (in the case of China 1 when interviewing respondent 2; in the case of China 4 when interviewing respondent 3). In these cases, notes were taken instead of tape recording. Insightful opinions from the respondents were carefully noted down. Bulletin points were substantiated by writing a more detailed account immediately after the interview so that the interview was still fresh in my mind. The interviews were all done in Chinese and were transcribed into English. Even though it is described as ‘time-consuming’ and ‘arduous’ work (Bryman, 2008), I personally found this process interesting and enjoyable. Transcription of interviews allows the researcher to get close to data, have an overview about the issue in question and note interesting points/ be alert to subtle interesting points. Through this process, many initial ideas of coding strategies have emerged. Besides, transcribing data into an electronic version can also help the researcher to better manage the data, so that the researcher can easily check specific facts or information when needed.

4.3.2.2 **Use of secondary data**

In this research, secondary data were employed as supplements to primary data from interviews. Scholars have proposed the benefits of employing secondary data in case study. Yin argued that ‘For case studies, the most important use of documents is to corroborate and augment evidence from other sources’ (Yin, 2003: P87). Employing secondary data can achieve the triangulation of data sources and strengthen validity of the research (Yin, 2003; Heaton, 2004). In this study, company documents and articles
from newspaper and magazines were the major secondary data sources.

During the site visits, I collected company internal published documents including memoranda, announcements, internal magazines and newspapers, internal reports from companies. These data mainly served two functions in my study. They help the researcher to have a general overview about case companies. Besides, documents allow the researcher to check exact figures, names, and other detailed information when respondents were not certain about the specific details. Moreover, the articles in newspapers and magazines provide an additional source of data to understand the same questions answered by respondents, thus achieving the triangulation of this study.

4.3.3 Data analysis

Case study can generate a large database which is described by Miles (1979) as an ‘attractive nuisance’. On one hand, the rich empirical data enable researchers to draw insights and discover emergent concepts and theories; on the other hand, it can lead to cumbersome and thick data for researchers to analyse (Bryman, 2001). Analysing empirical data is complex and the most difficult part in qualitative research (Eisenhardt, 2002). The rich amount of data generated from in-depth interviews and other sources can be one of the major difficulties faced by the novice qualitative researcher. Coding is an important process in analysing data for qualitative studies. It represents the process of breaking down data, conceptualizing and putting them back to new ways in qualitative study (Flick, 2008: 206; Ghauri, 2004). Put simply, it is classifying and sorting data according to concepts and themes. It facilitates making comparison of data under the same themes and help to develop theoretical concepts (Maxwell, 2005).

4.3.3.1 Template analysis as the coding strategy

In this study, template analysis was adopted to analyse data. Template analysis refers to ‘a varied but related group of techniques for thematically organizing and analysing
textual data.’ (King, 2004: P256). In template analysis, researchers will firstly develop a list of codes, which is named a template. The templates are organized usually in a hierarchical way suggesting the relationships between themes and concepts. According to the initial templates, the researcher can interpret data and conduct coding in a systematic way. In this process, new codes may emerge and modifications may be required so that the templates can reflect the meaning of the data.

The following advantages can be achieved through employing template analysis in our study. Firstly, template analysis allows for a predefined list of templates. The difference between template analysis and grounded theory is the starting point of the coding (Länsisalmi et al., 2004). In grounded theory, the research does not have predesigned codes to follow. The codes come out from the data. For novice qualitative researchers, it can be difficult to handle a large volume of data (Miles and Huberman, 1994). Utilizing template analysis, the researcher can firstly develop initial templates indicating main themes and prior codes under each theme. By doing so, this prevents the researcher from getting lost in the large amount of data without focusing on the key themes that are pertinent to the study (Miles and Huberman, 1994). Secondly, the coding process in template analysis is flexible (King, 2004). New codes may appear when coding the evidence. Templates allow the researcher to make changes, e.g. add new thoughts to existing ones, make verification or refine the existing codes (King, 2004). Furthermore, the hierarchical structure of templates enables researchers to cluster together groups of similar codes to produce more general higher-order codes. It facilitates the researcher to analyse data in a structured way, and also helps them to produce a clear and organized study (King, 2004).

In practice, an initial template was firstly developed based on interview themes (see Appendix B for a demonstration of template analysis). Focusing on the conceptual framework and interview themes is regarded as the best defence against data overload (King, 2004; Miles and Huberman, 1994). By using the initial template as guidance to code data, the researcher can focus on the main issues and avoid being overwhelmed or
distracted by other issues.

Since this study is about firms’ SAS event, respondents’ replies were firstly grouped into different SAS events, then organized to provide a whole story for each event. As retrospective data were collected, this may lead to information bias due to respondents’ poor memory. When inconsistent information and vague details occurred, the researcher checked with other respondents’ replies and consulted companies’ internal documents. Then, within each case company, data were organized according to different themes that were listed in the template. Main themes include general information about company background, strategic assets that case companies aimed for in each event, outcomes of each event in terms of whether case companies targeted valuable assets and whether they acquired these assets, firm’s identification ability in each event, firm’s effort made in the acquisition process in each event, other underlying factors that influenced the outcomes in each event. During the data analysis process, template analysis leaves flexible room for the researcher to cope with emergent codes from the data, delete unused codes, and make revisions about existing ones. A new theme was developed inductively in the process of data analysis, i.e. assets retention issue. It has been integrated into the final templates (Maxwell, 1996) (For an example of coding, see Appendix B). Categories under each theme were then developed based on the data. Relationships between different dimensions of absorptive capacity and underlying factors were drawn through data analysis. The structure and relationships among factors in the final template were used as guidance to compose data analysis chapters.

In this study, we employed multiple respondents to address the same event. Respondents in different positions and different departments can provide information from different views. However, respondents may also provide contradictory information (See Appendix C for an illustration of how replies from different respondents were coded to justify construct). This study requires information on case companies’ strategic investment decisions and outcomes of SAS events. Only people
who were close to companies’ strategic decision making and have personally experienced the event can provide reliable information. In general, key respondents provide similar information and opinion about events. Contradictory comments regarding to the outcome of SAS events have not been found. Whereas, different opinions were found when some sensitive fields were addressed e.g. leader’s ambition and failed events. For example, when respondents commented on China 4’s failed events, it is interesting that incumbent respondents gave moderate comments on China 4’s unsuccessful events by wording like ‘I would not see it as a failure,… it is a normal process for Chinese firms’, ‘It was the risk we have to take.’, as opposed to comments made by external respondents and respondents who had left the company, who directly pointed out that the events were ‘total disaster’, ‘total failure’, ‘purely out of leaders’ personal emotion’. This difference may be because incumbent employees were unwilling to expose negative opinions about the company. Except for this, respondents provided information about the inadequate operations, and suggested similar underlying factors. This may be because the events happened many years ago, therefore, they were not hot topics which could attract great attention in the company anymore; besides confidentiality was confirmed before the interviews. Nonetheless, these differences would not influence the overall confirmation on the outcome of China 4’s SAS events.

Apart from this, inconsistency across different respondents mainly occurred when detailed figures and years were provided. This has been solved by checking company documents, and then asking for respondents’ confirmation on the changes.

**4.3.3.2 Within and across case analysis**

Based on the coded data, I followed a typical inductive research route, i.e. firstly building individual case analysis, after that cross case analysis was conducted to search for patterns (Eisenhardt, 2002; Pauwels and Matthyssens, 2004; Graebner, 2004).
In the within-case analysis chapters, each case follows the same structure. The case company background will be presented first, followed by key SAS event analysis. Each key event analysis adopts the same format as shown below.

**Figure 4.1: Structure of key SAS event analysis under case companies**

1: Brief background to key event.
2: Targets and outcomes.
3: Underlying factors in the pattern of asset acquisition.
   3-1: Identification
      3-1-1: Key factors influence firms’ identification ability
   3-2: Acquisition Effort
      3-2-1: Key factors influence firms’ acquisition effort.

In the within-case analysis chapters, the network of coded variables and themes started to emerge in each individual case. Then in the cross case analysis chapter, we will look for similarities and differences among themes and trends and draw conclusions from data (Yin, 2003; Graebner, 2004).

In practice, researchers have suggested several tactics for doing cross case comparisons. For example, cases can be clustered or grouped according to categories or dimensions that are of potential interest (Eisenhardt, 2002; Graebner, 2004). In this study, we group cases according to two key themes, i.e. the targets and outcomes of SAS events, and the dimensions of absorptive capacity that underpinned the outcomes of SAS events. Furthermore, under each dimension of absorptive capacity, case companies are categorized into two broad groups according to the level of their abilities, i.e. firms with medium to high observed ability vs. firms with low observed ability. Through cross case comparison, within-group similarities and intergroup differences are identified and the emergent relationships can be refined. Patterns are drawn based on
the comparison between these cases.

4.3.3.3 Computer aided qualitative data analysis

Along with the technology development, software has been developed for analysing qualitative data. Different views have been received with regard to what benefits computerization of qualitative data analysis (QDA) brings to qualitative research. My study does not rely on software to analyse the data, instead I adopt the traditional way, i.e. manual coding. I propose that using software is a personal preference rather than one criterion to judge the quality of qualitative researches. I will justify my choice in the following paragraphs.

Richards and Richards (1994: P449), after reviewing the characteristics of qualitative study and the qualitative data analysis software, expressed their concern about computerization of qualitative analysis,

‘The problem and the excitement is that QDA (qualitative data analysis) is probably the most subtle and intuitive of human epistemological enterprises, and therefore likely to be the last to achieve satisfactory computerization.’

Indeed, the most amazing thing of qualitative research is how the researcher interprets the data rather than how the software interprets it (Richards and Richards, 1994). Even though software would be improved gradually, the most important creative aspect that distinguishes qualitative study from quantitative study is the interpreter. No matter how much the software can be improved, it does not replace the role of interpreter. Put another way, if in any of the cases, the interpreters’ creativity has been restricted or hampered, the quality of the qualitative research would be hampered. This highlights the distinguishing feature of qualitative study compared with quantitative study. Fundamentally, software for qualitative study cannot carry out analysis. It can only do textual level work, rather than conceptual level work (Richards and Richards, 1994).
The researchers have to analyse the data themselves (Flick, 2009).

I have used N-vivo to do analysis of three of the transcripts. I found that it was difficult to get used to using the software, and could not benefit much from it. Firstly, it restricts the researcher’s creativity. When I analysed the data and did the coding, the tidy and restricted formats made me feel less creative, and not very efficient. Sometimes, I needed to write those codes down on paper, and did my analysis again. What’s more, it prevented me from getting a whole picture of my data. In comparison with using software, I found that manual coding suits me better. The transcriptions have all been printed on A4 sized paper and marked with a series of numbers for reference purposes. Different colours are used to highlight the important issues on the margin of the transcription. Unified coding names are adopted and noted down so that the researcher can find the same theme on different interview transcripts easily. With printed paper, it is much easier for the researcher to check data from one transcript to another. I found it particularly convenient to code the data, write down memos or my thoughts on the margin of the paper just beside the text. I can use different colours to highlight different themes. Also I can cut them into pieces and reorganize them to help my understanding about the data. It really created a flexible and free atmosphere which boosts my creativity.

Some researchers have claimed that by using software, the speed and transparency of qualitative study would be improved (Weitzman, 2000; Flick, 2009). As to transparency, experienced qualitative researchers have provided numerous tactics to improve the quality of qualitative study such as keeping a database, using the same symbol to analyse data and generating the coding list (Yin, 2003; Bryman, 2008). In my study, I have provided a clear chain of evidence, including how I collect data, what data have been collected, the coding strategies and detailed templates and interview schedule in the appendix, which makes my study systematic and transparent.

Based on the above analysis, the major benefit that software could bring to a qualitative
researcher is its data storage function. However, even this can be achieved by other means. In my case, I transcribed and saved all the interviews as word documents. I organized the interview transcripts and other electronic documents such as company internal documents and magazines into different folders according to case companies. I saved them under a special folder named case study data. Therefore, it can be concluded that using software is a personal preference rather than one criterion to judge the quality of qualitative research.

4.3.4 Validity and reliability

Validity and reliability are two classic criteria for assessing the quality of quantitative research (Bryman, 2001, 2008; Flick, 2009). With reference to qualitative studies, researchers argue that the criteria used in assessing quantitative studies are less suitable when examining the quality of qualitative study (Bryman, 2004). For example, Bryman pointed out that the ‘measurement validity’ (also termed ‘construct validity’) is less relevant to qualitative study since the major focus of qualitative study is not to measure constructs. Generally, two stances of arguments exist in relation to the debated topic of how to assess the quality of qualitative research (Flick, 2006; Bryman, 2008).

One group of researchers suggest that an adaptation of criteria in quantitative study is needed when evaluating the quality of qualitative study (Bryman, 2008). In this vein, LeCompte and Goetz (1982) adapted the validity and reliability to suit qualitative research and focused on four criteria, namely, internal validity, external validity, internal reliability and external reliability. The other stance of researchers proposed that instead of adapting quantitative criteria, new criteria should be developed for qualitative studies (Altheide and Johnson, 1998; Leininger, 1994). Four alternative critical criteria have been generally acknowledged, i.e. confirmability, credibility, transferability and dependability. These four qualitative criteria are in essence analogous to the concepts of validity and reliability suggested by LeCompte and Goetz (Riege, 2003; Flick, 2006).
Literature has also offered techniques on how to enhance the validity and reliability of qualitative research. Maxwell (2005) claimed that ‘validity is a goal rather than a product; it is never something that can be proven or taken for granted.’ (P105). In the following section, I will organize and discuss the above mentioned criteria in the light of LeCompte and Goetz (1982)’s classification, coupled with efforts I made in my research to enhance the quality of this study.

4.3.4.1 Internal validity: credibility

Internal validity refers to whether there is a good match between researchers’ observations and the theoretical ideas they develop (Bryman, 2008). The corresponding test of internal validity is credibility.

Several techniques have been suggested to increase the internal validity of qualitative studies. Internal validity of a case study can be achieved through within-case analysis and cross-case pattern matching (Miles and Huberman, 1994). Using detailed descriptions, interview quotations and matrices to display data can assist explanation building in the data analysis phase (Miles and Huberman, 1994). In addition, triangulation techniques have also been suggested to enhance credibility (Lincoln and Guba, 1985). Besides, doing member checks (Lincoln and Guba, 1985) can also increase internal validity.

In this study, both within case and cross-case analyses were conducted to strengthen the internal validity. Through interviewing different ranges of respondents, both inside and outside of the company, incumbent and former employees, and different positions of respondents ranging from managers to staff members, it achieved triangulation of data and increased the validity of this study. The case study description and preliminary findings have been reviewed by several key respondents who were willing to read my work to make sure I understand their views correctly. The case study report has not needed to be amended by respondents.
4.3.4.2 External validity—transferability

External validity for case study mainly is concerned with the generalizability, i.e. whether the findings derived from this study can be generalized to a broader context (Lincoln and Guba, 1985). Its corresponding test is transferability. External validity is achieved when analytical generalization is achieved. The single case study has received much criticism in this respect. However, adopting a multiple case study method based on replication logic would largely strengthen the validity of the results of this study (Eisenhardt, 1989ab; Parkhe, 1993).

In this study, I adopted a theoretical sampling strategy and made clear the scope of the generalization of this study, that is analytical generalization rather than statistic generalization. As a consequence, it would increase the external validity of this study to generalize to some broader theory.

4.3.4.3 Reliability – dependability

Reliability, in qualitative study, is mainly concerned with ‘if someone else did the research would he or she get the same results and arrive at the same conclusions?’ According to Riege (2003), dependability is the corresponding test analogous to the notion of reliability. LeCompte and Goetz (1982) further identified two dimensions of reliability, i.e. internal reliability and external reliability. Internal reliability refers to ‘whether, when there is more than one observer, members of the research team agree about what they see and hear.’ External reliability refers to ‘the degree to which a study can be replicated.’ In our study, external reliability is our major concern.

Daymon and Holloway (2002) argued that in qualitative inquiries, reliability can never be wholly achieved. Researchers’ own background and characteristics would influence how they interpret the data, thus, different researchers may have different interpretations about the same data and might reach different conclusions. Riege (2003)
suggested that the main efforts on tackling the issue of reliability should be made to
enhance stability and consistency in the process of inquiry.

Reliability can be enhanced through using several techniques. Yin (2003) suggested
that reliability can be tackled in the data collection phase. Establishing a case study
database is important in order to increase the reliability of the study (Yin, 1994, 2003),
as well as an evidence chain (Yin, 1994). Furthermore, reliability can also be increased
by ‘recording data mechanically, for example, by using a tape recorder or video tape’
(Nair and Riege, 1995).

In this study, I adopted the following tactics to tackle the issue of reliability. In the data
collection section, contextual and background information regarding how access was
gained to the case study ‘sites’ have been provided. General information about case
companies, the list of respondents and interview schedules employed have all been
presented. The templates demonstrate how the author interprets the data (Flick, 2009).
A case study database has also been developed for each case including data collected
from interviews and data collected from other sources (Lincoln and Guba, 1985; Yin,
1994). Interviews have been recorded. Through these tactics, it is hoped to make the
study transparent and systematic, help readers to understand how I reach such
conclusions, and consequently enhance reliability of this study.

4.4 Conclusion

Based on a critical review about the different methodology options, I justified my
choices with regard to research methodology issues. Specifically, the theory-generating
rather than theory-testing nature of my study requires a qualitative research approach
based on inductive approach, rather than quantitative research underpinned by a
deductive approach. The research questions, context and the available research
resources all suggest that case study is the most suitable strategy to conduct this
research. Then this chapter focused on explaining the research design of this study and
rationale behind it. Four cases have been employed, which strengthen the finding of this study compared to the single case study method. The data collection and data analysis process have also been demonstrated. Semi-structured interviews as the main data collection method together with secondary data sources contributed to the triangulation of the data in this study. Data have been coded under the guidance of template analysis techniques. Finally, the efforts made to tackle the issue of validity and reliability in this study have been discussed.
Chapter 5

CASE 1--CHINA 1

5.1 Company background

China 1, established in 1984, is a leading privately-owned Chinese personal computer (PC) manufacturing company. Its early business was importing PCs from the likes of US 1 and AST (an American PC company) and selling them to the Chinese market with an early development of putting in Chinese character graphics cards into the imported PCs. In 1990, the company launched its first PC. In 1996, China 1 became the market share leader in China for the first time, and successfully changed its role from an agent importing computer products into a producer and seller of its own branded computer products. In 2000, China 1 accounted for more than 35% of the domestic PC sector. In the same year, it ranked in the top 10 of the world’s best-managed PC vendors. In 2003, it changed its logo from Chinese Pinyin to an internationalized logo symbolizing its strategic direction of expansion into overseas markets. In 2004, it acquired US 1’s PC unit. US 1 is a major US-based ICT company with a globally recognized brand image. China 1’s acquisition of the PC division of this company is described as a key SAS event by China 1.

China 1 had the ambition of being an international company as early as 1989 (Personal interview), however, it does not have much international experience (See Table 5.1 for China 1’s international experiences). The acquisition of US 1’s PC division is its first and only international expansion investment. This acquisition was driven by a strong strategic asset-seeking motivation: to gain valuable assets ranging from brand name, technology, human resources and international reputation. After China 1 completed the acquisition of US 1’s Personal Computing Division, it becomes the third-largest personal computer company in the world. Four years after the acquisition, China 1’s
annual sale reached 17 billion US dollars and the company ranked 499 in Fortune 500. It established its executive headquarters in Morrisville, USA and three principle operations in Beijing, Morrisville, and Singapore. With 25,000 employees worldwide, its branches spread into 66 countries. It now produces the whole range of PC based products, from consumer and business desktops to notebooks to servers and mobiles.

Table 5.1 China1’s internationalization experience

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>Founded</td>
</tr>
<tr>
<td>1997</td>
<td>Had the ambition to implement internationalization strategy</td>
</tr>
<tr>
<td>2004</td>
<td>Acquired US1’s PC department (SAS event 1) the first step of their internationalization</td>
</tr>
</tbody>
</table>

5.2 Key event: acquisition of US 1’s PC Division

5.2.1 Background

US 1 has been a world leading PC manufacturing company based in the USA. It is transforming itself into a servicing company focusing on providing services and software applications. Due to the change at the strategic level, making PCs is no longer their main business activity and US 1 was keen to divest its PC manufacturing division. As early as 2000, US 1 had already approached China 1 with the proposal of selling its PC division (personal interview). At that time, China 1 turned down the proposal as it believed that it lacked the capability to successfully take over a major division of a giant MNE (personal interview). Besides, as China 1 was implementing a diversification strategy in the domestic market, it did not want to take the risk of venturing abroad. In the event, China 1’s diversification strategy encountered fierce competition and failed (personal interview). This forced them to refocus on PCs as their core business and view going abroad as the strategy for further growth and
development. When US 1 approached China 1 again in 2003, China 1’s new evaluation was that US 1 could provide what it lacked in terms of strengthening its PC competences and going international. Therefore, China 1 decided to take the risks to accept the deal. In 2004, China 1 with the then current revenue of 2.6 billion US dollars acquired US 1’s PC sector with a revenue of 9 billion US dollars. After the acquisition, China 1 merged its own business with US 1’s global PC business and integrated into a unified organization structure.

5.2.2 Strategic benefits China 1 expected and results

In acquiring the PC division of US 1, China1 particularly desired the following assets: US 1’s R&D capabilities, its international management teams, and its marketing channels. China 1 also attempted to increase its brand awareness in international markets through acquisition of US 1’s PC division. These assets are considered as critical resources that China 1 lacked in its internationalization. Respondent 1 (former assistant of vice president of China 1) commented,

‘…If we go step by step by ourselves, it will take a long time… The main thing we lack is talents with international operation experiences… (In this acquisition) we need people that are capable of doing international business……next are US 1’s R&D capabilities and its marketing channels.’

In reference to the effectiveness of this SAS event, the assets China 1 actually gained are discussed below.

1. Technological related assets

US 1 has a very strong PC R&D capability. It possesses many technology patents. As the external respondent (investment banking analyst) observed, the patents relating to 2
key product groups produced by US 1’s PC division are very valuable and incorporate leading edge technologies. Apart from the patents, the R&D personnel in US 1 are also regarded very highly. China 1 was very keen to acquire both the patents and the R&D talents. Respondents indicated that China 1 was generally successful in this regard. China 1 acquired US 1’s R&D centre in Japan which, according to the respondent (investment banking analyst), ‘owns most of the patents and specialist equipment and employs most of the specialists’ formerly working in the PC division of US 1.

Respondent 2 (former senior manager in China 1) commented,

‘250 R&D personnel from US 1 have been integrated into China 1. These R&D personnel are the core talents that China 1 wanted to acquire.’

Respondent 1 (former assistant of vice president in China 1) also expressed her excitement in relation to acquisition of R&D personnel:

‘Since the PC division in US 1 is not a core department, the technology talents did not attract enough attention from US 1. However, in China 1, they have been put into important positions and will have more opportunities and potential spaces to use their talents.’

2. Internationalized management team

Not only did China 1 gain around 250 additional managers with international experience from US 1, it also attracted managers working for other IT firms such as Dell. The rapid extension of the firm management team is regarded as a key benefit for China 1. Respondent 1 (former assistant of vice president of China 1) said,

‘We are very satisfied with our human resources. For us, a growing Chinese company, to have an internationalized talents team is the most important thing’

Respondent 5 (engineer) also confirmed this view and pointed out the company’s director regards China 1’s ‘stable internationalized team as more important than short term financial gain’.
Respondents further pointed out that China 1 had experienced a change in the mind-set of employees generally and displayed a more international outlook. Thus Respondent 1 (former assistant of vice president of China 1) specifically pointed out that:

‘Our employees, at least the employees in China, have now a broader field of vision. They now have a chance to work overseas…… We are more international-oriented. We now see the global business across different countries, before (the acquisition) we only saw our domestic market, our local business.’

Also, before the acquisition, China 1 operated and managed business ‘in a similar way to other state owned enterprises in China’, but after the acquisition, China 1 becomes ‘a real internationalized company’ (Respondent 3: marketing manager). English has become the working language for China 1. Employees have been strongly encouraged to improve their English skills. China 1 regularly holds English culture and language training courses for employees. Respondent 6 (manager of human resource department) commented,

‘We now are encouraged to practice English. We have to communicate with foreign staff in English. We resisted them at first, we didn’t understand their ways of doing things, but now the communications are much better.’

3. Reputation

The acquisition enhanced China 1’s international brand awareness. As a major PC business leader in the domestic market, China 1 had limited influence in overseas markets. As Respondent 3, one of the managers in the marketing division pointed out,

‘They (overseas consumers and enterprises) had not heard of China 1 before. But after the acquisition, they know that there is a Chinese company – China 1 acquired the blue giant’.
The acquisition was shocking news in the industry, even many overseas newspapers and magazines reported this big news, ‘It helped to establish a positive image for China 1.’ (Financial reporter).

An external respondent (university scholar) confirmed this by saying,

‘China 1’s brand influence in international markets was zero before the acquisition. The acquisition is a good way to introduce China 1 to international markets, especially in advanced markets.’

After the acquisition, China 1’s brand influence in the domestic market also significantly improved. China 1 gained credit in the domestic market reflecting an element of ‘national pride’. According to an external respondent (senior financial reporter),

‘For so many years, Chinese firms have been followers of western MNEs, but now China 1 acquired such a leading company. As Chinese we are very proud.’

4. Marketing channels

China 1 originally wanted to utilize US 1’s market channel to open international markets. US 1 has many customer resources. However, after the acquisition, China 1 found that it had only obtained a purely product department. All the customer resources are controlled by US1’s global service department. China 1 did not gain marketing channels as they expected. With regards to this, Respondent 3, (marketing manager), made the following comments,

‘At the beginning, we thought that through purchasing US 1, we would acquire the distribution aspects and this would help us to learn about marketing of PCs. However, we found that it is only a product department. It doesn’t have marketing activities.’

In summary, China 1 in the acquisition of US 1’s PC unit targeted high quality assets.
China 1 strengthened its R&D capabilities, and successfully built a highly internationalized management team, broadened employees’ mind-set, and gained reputation through the acquisition. However, contrary to their expectation they did not gain marketing assets. The table below summarizes the assets they expected and what have been gained.

<table>
<thead>
<tr>
<th>Strategic benefits</th>
<th>Strategic assets China 1 gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>China 1 targeted Technological assets</td>
<td>Gained US 1 PC sector’s R&amp;D resources, technologies R&amp;D human resources</td>
</tr>
<tr>
<td>International management team</td>
<td>Bringing in internationalized management teams</td>
</tr>
<tr>
<td></td>
<td>The acquisition of the PC division and its integration into China 1 also resulted in a notable broadening of employee mind-set towards international orientation.</td>
</tr>
<tr>
<td>Reputation</td>
<td>The acquisition increased China 1’s international brand awareness</td>
</tr>
<tr>
<td>Marketing channels</td>
<td>The purchased PC division was in reality a pure product department, with no channels, marketing, or even customer resources. The customer resources of US 1 are mainly controlled by IGS (US 1’s global service department) which did not belong to the PC sector.</td>
</tr>
</tbody>
</table>

5.2.3 Underlying factors in the pattern of asset acquisition

China 1 targeted and acquired several valuable assets in this event. The outcome in terms of assets gained was somewhat mixed. They successfully acquired an international management team and R&D capabilities of US 1 both of which have been
considered as high quality assets. But they did not gain marketing assets as they expected. The following three dimensions have been found to contribute to this result.

### 5.2.3.1 Identification

US 1 was considered by China 1 as the appropriate target that could provide what China 1 needed to become international. As Respondent 3 (manager of marketing department) explained,

‘Where can we get the brand, technology and management team? We have to get it from US 1’s PC unit. We were buying managerial teams, buying technologies, patents and R&D teams. It would be too difficult if we rely on ourselves to build these.’

As shown earlier, China 1 had a generally effective acquisition of assets it targeted with the exception of marketing channels. All the respondents who commented on the issue indicated that China 1 had correctly identified the target firm in as much as the assets embodied had strategic value for China 1. The external respondent (investment banking analyst) also confirmed the value of the assets and commented,

‘US 1 has many valuable assets. These assets may be not good enough for US 1, but they are high quality to China 1, the only problem was whether or not China 1 can successfully take over the “elephant”.’

Moreover, the explanation from Respondent 1 (former assistant of vice president of China 1) further indicates China 1’s good ability in identification:

‘if not US 1 but other companies that approached us, we wouldn’t have necessarily taken the action. US 1 was the appropriate target and offered assets that we lacked.’

However, even though China 1 showed generally good identification ability by targeting
US 1, it still did not fully understand the target. It expected to gain marketing channels from US 1, however, it found out that US 1’s PC division was only a product sector without marketing channels. With respect to this, the respondent explained,

‘We had no previous international experiences and no deep cooperation with US 1…It was difficult for us to get all the information about US 1.’

China 1’s generally good ability to identify the value of the target has been largely due to its prior knowledge base. China 1 had a generally good understanding and knowledge about US 1. China 1 and US 1 shared the same beliefs and business concepts. This was the foundation for the success of the acquisition.

As respondent 1 (former assistant of vice CEO of China 1) explained,

‘Our beliefs are similar which is to make the PC easy to use, and create value for customers……The common views shared by US 1 and Firm A in terms of PC development and manufacture, and the fact that our needs and US 1’s needs were in accordance, made us decide to choose this acquisition to go international.’

There are two reasons why China 1 had a good understanding about this target:

A: Prior ties with target

China 1 has always regarded US 1 as the model business for it to emulate. Respondent 4 (engineer) said,

‘As Chinese firms, we don’t have many domestic enterprises to learn from, therefore, we learn from world leading enterprises. US 1 has always been the industry’s yardstick, model for us to learn since our establishment.’

In addition to this, China 1 worked as an agent to sell US 1’s PCs by adding Chinese character graphics cards to them. This prior tie made China 1 familiar with US 1 and encouraged it to target US 1. Respondent 2 (former senior manager) observed,
‘We analysed US 1’s business model and management systems and looked for distances between their management and our management when we were importing PCs from it.’

This prior tie encouraged China 1 to target US 1. As commented by Respondent 6 (human resources assistant manager), as the ‘blue giant’ and also China 1’s ‘teacher’ (when it first started the business), ‘US 1 is the best choice to fulfil our internationalization strategy.’

B: Thorough investigation prior to acquisition

Before they made decisions, China 1 did a thorough investigation about the assets they aimed for. They formed a 5-people negotiation team. Respondent 2 (former senior manager) commented that ‘As we were aware of our incompetence, we invested sufficient human resources and capital to do the investigation.’

He further explained ‘Our main considerations were: a) why US 1 wanted to sell its PC sector? b): why US 1 PC division suffered loss? And c): can China 1 make a profit in the PC sector. Before we found out the answers, we would not make decisions.’

The investigation showed that US 1 was selling its PC sector because it was under strategic restructuring. Besides, they identified the reasons for US 1 PC’s loss. Also the analysis indicated that China 1 could make a profit from the new assets. The extracts from Respondent 1 (former assistant of vice president) illustrated this,

‘The cost of management and the costs of products were high in former US 1. The PC industry is indeed one of low profit margins. It’s like squeezing water from towel, even from dry towel. Were they selling fried food wearing suits? (A Chinese metaphor describing that US 1 may have an unnecessary high cost when producing PCs). After our careful and detailed analysis, we found that there was actually a big potential to raise profits in US 1’s PC sector, if we can manage the acquisition well.’
Through its investigation, China 1 confirmed that it shared a common knowledge base and a similar management concept with US 1. Respondent 3 (marketing manager) explained ‘We understand their behaviour, and they understand our behaviour, this provided the foundation for the integration of the two business sectors’

Respondent 1 (former assistant of vice president) further commented,

‘when we discussed and communicated with US 1, we found that we share similar concepts towards PCs. We both stress creating value for customers, we both want to make PCs which are easy-to-use, much higher quality, we don’t sell PCs as a mass produced commodity, but emphasize technology and innovation.’

**Figure 5.1 : Prior knowledge base and identification ability**
5.2.3.2 The effort made in acquisition

Once China 1 decided to make the acquisition, thorough efforts were made in order to bring in the assets smoothly. China 1 developed specialized teams and hired consulting companies to deal with the acquisition. The preparation process went on for 1 year. More than 100 managers from China 1 were involved. The main task was to list the most important issues that they might encounter during the acquisition process and to look for solutions.

Thorough and sustained debates in China 1 had sharpened the prior knowledge base of China 1 enhancing the familiarity and understanding about the targeted company. Respondent 2 (Former senior manager) confirmed that the research and analysis before the acquisition was very thorough. In his words, ‘We took various aspects into consideration ranging from strategies, tactics, human resources, culture, finance, laws and every other aspect that we could think of.’

Respondent 1 (former assistant of vice president) who had participated in the investigation, similarly observed,

‘... we established more than 20 groups, each focused on a particular issue and considered the measures to solve potential problems... For example, issues like the supply chain: how to solve potential problems in the global supply chain...... There were a lot of questions like this, each group was subdivided to many small groups handling different issues.’

The external Professional consultants were also involved in researching the acquisition. These experts helped China 1 to analyse the feasibility and point out possible difficulties China 1 might face.

Respondent 2 (former senior manager) illustrated,

‘Both people in our company and people outside of the company were involved...... For example, McKinney was employed to give us advice at the strategic level. And Goldman Sachs helped us to
analyse the financial aspects…The consulting companies provided us with analytical tools and the methodologies, but how to use these tools is still decided by the company itself. Thus we conducted the discussions again and again, and listed the difficulties and problems we thought might happen in the acquisition.’

The following are the key influential factors that encouraged China 1 to devote significant resources to the acquisition effort.

**A: Good understanding about the difficulties**

The success of the events was pertinent to the survival of China 1. Compared to China 1, the pressure was less on US 1. The PC sector was the part that they planned to get rid of anyway. But to China 1, it was a vital decision highly related to the fate of China 1. They faced great challenges and were under great pressure.

‘At that time, how to acquire US 1 had been discussed very seriously in our company. If it was not successful, we would lose much more than US 1, we would face the question of whether we can survive rather than the question of whether we can develop.’

(Respondent 5, engineer)

China 1 was aware of the difficulties in taking over US 1’s PC unit. They identified two major difficulties. Firstly, there was the unusual size difference between the acquirer and the acquired. US 1’s PC sector is three times the size of China 1. Respondent 3 (marketing manager) expressed their concern at that time,

‘We are a small company but want to acquire a giant. It’s like a snake wants to eat an elephant. Under this circumstance, questions like: can we take them in smoothly and successfully; Can we achieve our original objectives; became the most vital questions
and the questions that we cared most about.’

Secondly, differences between western and eastern culture was also a big challenge facing China 1. The conflicts between western culture and Chinese culture are obvious in this event. In addition to this, the corporate cultures in these two companies are deeply rooted and prolonged respectively.

Respondent 1 (former assistant of vice president) explained,

‘Even we ourselves will say that China 1’s culture has become the DNA of people in China 1. On the other hand, US 1’s culture is also very strong and has a long lasting influence on their employees… The different cultures between Chinese and western are strong. This can be one of the major difficulties.’

B: Previous failure experience in diversification strategy

In 2001, China 1 implemented diversification strategy in the domestic market. In order to expand business, it spent a large amount of investment on three main IT related business activities, viz. internet, IT, mobile phone and digital products. However, the diversification strategy failed. It has been suggested by several respondents that the failed diversification strategy reminded China 1 to be very cautious in their subsequent strategic choices. Respondent 1 (former assistant of vice president) illustrated,

‘We did not perform well in diversification strategy, actually, we suffered losses and the products we invested in could not withstand the fierce competition in the domestic market and disappeared. The failing experiences taught us a very important lesson: when we make strategy, we must think carefully and clearly about what is going to happen in the future…In our acquisition of US 1 PC, we become very cautious. We did not want to make the same mistake. We took account of various conditions.’
The analyst from an investment bank agreed that,

‘China 1’s diversification strategy suffered losses. It learnt a lesson from this failure. China 1 is careful and thoughtful in taking each step now. This is what other Chinese enterprises need in their internationalization process.’

C: Leaders’ attitude

In this process the leader’s attitude towards spending efforts has been emphasized by respondents as a key element which drives the firm to invest human resources and research and investigation. Respondent 2 (former senior manager) stressed the importance of their company leader and commented that only those things that China 1’s leader regards as being of high priority and is willing to devote resources to can be executed well. In the acquisition process, the leaders of China 1 attached great importance and devoted resources to the acquisition process.

The following extract from Respondent 1 (former assistant of vice president) illustrated this,

‘Our boss (chairman) and our top managers decided the stages of the acquisition from a macro point of view. For example, the top leaders raised an issue “how to merge and harmonize the culture”. Our special teams who were responsible for dealing with culture conflict would have to gather information and offer solutions. This would be discussed in our meeting many times until our leaders were satisfied.’

Respondent 6 (human resource manager) also commented,

‘When our managerial levels decided what to do, all the senior managers and many ordinary employees were committed and determined to making efforts towards the same goal. We were acting like one person.’
Figure 5.2: summary of underlying factors for efforts made in acquisition process

Good understanding about the difficulties

Previous failure experiences as a Trigger

Thorough efforts have been made

Leader’s strong support in devoting resources in order to acquire US 1

Summary of key event of China 1

In conclusion, this event is a generally successful SAS event. China 1 successfully gained the following assets it aimed for: technology, R&D talents, international management team, and raised its reputation worldwide. Besides, its employees’ mind-sets were broadened through this event. However, China 1 failed to gain marketing channels it originally expected.

It showed a good identification ability by targeting US 1 to strengthen its PC competences and equip it with assets it lacked to go international. The thorough effort made in acquisition also facilitated it to acquire the benefits successfully.
Chapter 6

CASE 2--CHINA 2

6.1 Company background

China 2, a privately owned leading high technology company in China, has become a world leading telecom solutions provider. Founded in 1988 with a starting capital of 24,000 RMB, China 2’s initial business was importing digital switches from western MNEs and then selling to domestic customers. At that time, Chinese firms did not possess the technology to produce digital switches. The domestic market was dominated by western MNEs’ products. In 1992, China 2 decided to conduct R&D in self-developed digital switches. In the same year, it manufactured its own digital switches successfully and became the first Chinese company to produce digital switches. Since then, China 2 has been dedicated to technology research and development. Now, it has developed advantages in telecom network infrastructure, application and software, professional services and devices. It is capable of producing a wide range of products among which major products are based on China 2’s own chipset manufacturing technology, and provide solutions to serve world leading telecom operators.

China 2 has a relatively long international history (See Table 6.1 for China 2’s international experiences). At an early stage of its development, the leader of the company already had the ambition of becoming an internationalized enterprise. China 2 implemented the internationalization strategy in 1995, aiming at developing countries first. After years of hard efforts, it had successfully opened LDCs and provided products and services to leading telecom operators in major developing markets such as

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3 China 2’s products and solutions encompass wireless products (HSDPA/WCDMA/EDGE/ GPRS/GSM, CDMA2000 1xEV-DO/CDMA2000 1X, TD-SCDMA, WiMAX), core network products (IMS, Mobile Soft switch, NGN ), network products (FTTx, xDSL, Optical, Routers, LAN Switch), applications and software (IN, mobile data service, BOSS), as well as terminals (UMTS/CDMA).
South East Asia, South America, and Africa. Starting from 2000, China 2 wanted to broaden its internationalization in advanced markets. At that time, it had already developed strong R&D capabilities thanks to its long-term continuous investment in R&D and customer-centred innovation. It also had built up management and marketing capabilities in terms of serving MNEs in less developed countries, and had accumulated successful experiences and built up a good reputation in LDCs. However, it did not have experiences in serving MNEs in DCs and did not establish a reputation in advanced markets, which was the biggest bottleneck to China 2 when conquering advanced markets and also the assets it aimed for the most. Thus, it first targeted the European market, and the UK had been selected as its battlefield. By gathering market information in the UK, China 2 identified an opportunity that was to establish strategic alliance with UK 1, the biggest telecom operator in Britain, as a strategic battle to build up its reputation in advanced markets (Key event 1 of China 2). In this event, China 2 successfully became the sole provider of UK 1’s next generation network (NGN) building. In 2006, China 2 targeted UK 2 to strengthen its technology in 3G and further built up its reputation in the field of 3G technology (Key event 2 of China 2). In 2006, it targeted UK 3 and attempted to acquire UK 3 so as to gain a range of assets including brand name, marketing channels and human resources (Key event 3 of China 2). Although the acquisition was aborted, it demonstrated China 2’s absorptive capacity of identification. In this case study, these three key events will be studied.
Table 6.1: China 2’s international experience

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>Established</td>
</tr>
<tr>
<td>1995</td>
<td>Set internationalization as the strategic aim</td>
</tr>
<tr>
<td>1996</td>
<td>Expanded in HK and Russia market</td>
</tr>
<tr>
<td>1998</td>
<td>Focused on Africa and Southeast Asian countries and had operated successfully in these markets</td>
</tr>
</tbody>
</table>
| 2002 | Started to prepare to enter into UK and European markets  
SAS event 1: strategic alliances with UK 1  
SAS event 2: Strategic alliances with UK 2  
SAS event 3: Attempted to acquire UK 3 |
| 2007 | Entered into North American market by JV |

6.2 Key event 1: cross border strategic alliances with UK 1

6.2.1 Background

UK 1, a leading telecom operator based in the UK, has a big influence on world markets. Its business covers European, American, and Asia Pacific markets. Since UK 1’s former supplier went bankrupt, it was seeking a new supplier to build up its NGN, also to be named the 21st century network project. In this event, what motivated China 2 was to build up its reputation in advanced markets. If China 2 could successfully become the contracted provider of UK 1 for establishing its next generation network (NGN), it would highly boost China 2’s reputation and help them to enter into the top tier players of advanced markets. Since 2003, China 2 had made preparations for gaining the contract. After two years of efforts, in 2005, China 2 successfully gained orders from UK 1 on manufacturing, supplying and installing multi-service network access components and transmission equipment for UK 1’s 21st century (21CN) project.
6.2.2 Strategic benefits China 2 expected and results

In this event, China 2 showed a very clear and focused objective, i.e. to build up its reputation in advanced markets so as to open these markets. Respondent 4 (senior marketing manager) commented that China 2 had successfully entered into the top tiers of telecom operators in less developed countries and built up a good reputation in these markets, however, not yet in advanced markets. Thus, to establish a reputation in advanced markets was of significance for China 2’s international strategy of entering into advanced markets. Similarly, respondent 1 (former senior manager of overseas department) observed,

‘We lacked reputation (in advanced markets). That’s what we needed the most. We got managerial capability, technology capability and marketing skills, but we didn’t have reputation in advanced markets. That’s what prohibited our steps of internationalization, and what took us so many years to prepare for.’

UK 1 was regarded as a good target to enable China 2 to get the assets it needed. With reference to this, Respondent 4 (Marketing manager) pointed out that

‘UK 1 is one of the strictest world leading telecom operators. If we want to be a top level telecom solution provider, we need to be able to serve top level telecom operators.’

An external respondent (senior financial journalist) also confirmed this view and commented that,

‘UK 1 is a leading MNE with a big influence in European markets, to cooperate with UK 1 can prove China 2’s capability and boost its reputation in advanced markets.’

Next the results of this event in terms of the assets China 2 actually gained are discussed below.
1. Reputation
All the respondents confirmed that the fact that China 2 had successfully become the sole supplier of UK 1’s 21CN project had won China 2 a reputation in advanced markets. Since then, more and more western telecom operators are willing to do business with China 2. Respondent 4 (senior marketing manager) commented that the event helped China 2 to gain contracts from other European markets much more easily. He observed,

‘Before this event, they (western MNEs in advanced markets) hardly knew us. However, after the event, we began to receive orders from Netherlands and other European countries. For example, we had successfully won orders from KNP (a big Netherlands telecom operator) and a German telecom operator.’

The extract from Respondent 2 (former senior marketing manager) further illustrated this,

‘……for us the meaning of the project is not how much profit we can make, but that we gained a whole new growth and development platform, we demonstrated that we have the real ability to serve first class world operators, from now on, we can stand in the European market.’

Respondent 7 (engineer) commented that China 2 had beaten western players and won two big orders from UK 2. It was the best way to demonstrate its overall capabilities. An external respondent (senior journalist) agreed with this and commented that the event boosted China 2’s brand image rapidly, it symbolized that China 2 have the ability to serve top world players.

2. Other benefits gained
Apart from gaining reputation in the European market, China 2 also gained knowledge and experiences from successfully being the sole supplier of UK 1. According to
respondents, the process of gaining approval from UK 1 and finally gaining orders was full of challenges. Respondent 7 (engineer) who had participated in building up UK 1’s 21 CN project, observed that they encountered many new situations which they had not met before. Through overcoming these difficulties one by one, China 2 gained valuable benefits in the following aspects.

Firstly, the demanding and strict requirements of UK 1 forced China 2 to reach international standards in terms of safety management, product quality and services. He commented that,

‘UK 1’s requirement on safety management is extremely high. We must learn the course, pass exams and get a safety certificate, before we enter the work station. We are required to wear specially designed shoes, clothes, and safety helmet.’

He further added,

‘This is only for employees’ safety management, it does not include the safety requirements of the network. You can image, how many other strict requirements we needed to face.’

Secondly, employees’ mind-sets have been changed. China 2 better learnt western telecom operators’ requirements and standards for products. The intensive contacts with UK 1 have broadened employees’ horizons. Respondent 1 commented, ‘being examined by the world's top level experts (of UK 1), our weaknesses are exposed.’

China 2 realized that the biggest difference between China 2 and the world’s top MNEs is in management. Respondent 1 (former senior manager in overseas department) explained,

‘Before the cooperation, we thought that the biggest gap between us and western MNEs was in technology. We thought that as long as we have advanced technology, we can be world leading MNEs. But now, we know that the biggest difference is in management.’
In Respondent 6’s (assistant manager) words ‘now we know what a real multinational company is.’ Similarly, Respondent 4 (senior marketing manager) also commented,
‘…We learnt western operators’ specific requirements on different indicators…. We also learnt their way of doing business. For example, they required very detailed documentation and this is not we would usually do.’

In order to better cooperate with UK 1, China 2 also organized classes to help employees to improve their language skills and learn British culture and business style. The employees of China 2 gained knowledge in terms of foreign language and culture. They developed contact with British business style and learnt how to cooperate with British enterprises. Respondent 6 (assistant manager) gave an example,
‘Chinese business style is more likely to take actions immediately after we made decisions; we tend to make adjustment later on. However, the British style is more like making a plan as thorough and detailed as possible, they don’t have many changes in the implementation process. We learnt how to balance between these two different styles and also how to communicate with them in this event.’

In summary, China 2 successfully gained the assets it aimed for, i.e. reputation in advanced markets. Moreover, since it cooperated with UK 1, a world leading MNE with strict requirements on products and services, China 2 also gained improvement in safety management and product quality, broadened employees’ mind-sets, and increased employees’ knowledge base in terms of language skills, foreign culture and business style. The table below summarizes the benefits China 2 aimed for in this event and the results.
Table 6.2: Key event 1: the benefits China 2 aimed for and gained

<table>
<thead>
<tr>
<th>Strategic benefits China 2 targeted</th>
<th>Strategic benefits they gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation in advanced markets</td>
<td>Gained reputation and built up China 2’s brand image through being sole provider to UK 1</td>
</tr>
<tr>
<td>Other benefits gained</td>
<td>1. Improvement in safety management and product quality control.</td>
</tr>
<tr>
<td></td>
<td>2. Employees’ knowledge base had increased:</td>
</tr>
<tr>
<td></td>
<td>- Realize the distance between China 2 and world’s top MNEs;</td>
</tr>
<tr>
<td></td>
<td>- Learn foreign Language, culture and business style</td>
</tr>
</tbody>
</table>

### 6.2.3 Underlying factors in the pattern of asset acquisition

In this event, two factors have been found which underlie China 2’s successfully gaining the asset it had longed for. China 2 firstly showed a good identification ability by targeting UK 1’s 21CN project as the appropriate opportunity to facilitate it to gain a reputation in advanced markets. In order to acquire the asset, China 2 made a long-term resource commitment to build up the requisite capabilities so as to gain the contract from UK 1. These two factors will be presented below.

#### 6.2.3.1. Identification

China 2 deliberately chose UK 1 as its target. It showed a good understanding about UK 1 and the UK market. Its prior knowledge seeking experience has been found to be the major factor which helped China 2 to identify UK 1 as the appropriate target to fulfil its strategic aim.

**Prior knowledge seeking experiences: rich international knowledge seeking experiences**

China 2 has successful international experiences in less developed countries. It has been active in international competition and forming alliances with customers and
suppliers who are leading players in these markets. It also had many cooperation experiences with leading MNEs from developed countries in these markets. The extract from Respondent 1 (former senior manager) illustrated this,

‘When we were opening in less developed countries, we deliberately chose to cooperate with the strongest players in the market. We had cooperated with a large amount of MNEs who operated in less developed countries, many of them are leading MNEs from developed countries, such as ADI, Agere, Altera, HP, Intel, Microsoft, Motorola, Oracle, SUN, TI etc.’

By operating in LDCs and doing business with these leading MNEs, China 2 had accumulated rich knowledge-seeking experiences. When it wants to enter a new market, it firstly accumulates knowledge and information about the market. With regard to this, Respondent 4 (marketing manager) pointed out,

‘We are very aware of the importance to learn regulations and knowledge of the market when we enter into a new market. … Understanding this local knowledge is very important, there may be particular regulations in their industry. It needs us to make contact with different parties and learn little by little.’

In addition, the Chinese social and business network in the local market is an important channel for China 2 to get market information. Respondent 1 (former senior manager of overseas subsidiary) explained,

‘When we enter a new and unfamiliar market, we generally resort to local Chinese embassies first. We gain market information and general understanding about the foreign market from Chinese embassies. We established good relationships with local Chinese embassies. Through them, we expanded our business networks and increase channels for us to seek the knowledge we need.’
In relation to entering the UK market, China 2 adopted the same route to gather market knowledge and information. Respondent 1 (former senior manager) stated that ‘we firstly gained market information from the Chinese embassy. From them, we learnt who the key players were in the market, we gained culture and regulation information, and identified our targeted customers.’ It then established sales representatives in the UK as a foothold to collect further information. Through these means, China 2 found a good chance for it to open the UK market. The extract from Respondent 1 (former senior manager in overseas subsidiary) explains this in detail,

‘As early as 2000, China 2 had paid special attention to UK 1. In the western market, a big telecom operator like UK 1 would normally only consider western companies (in terms of forming alliances). But we learnt that UK 1’s former main provider of core network was close to bankruptcy. UK 1 needed a replacement. Meanwhile, UK 1 also wanted to lower its cost and increase its profitability. It was a good opportunity to replace UK 1’s former provider and become the new supplier of UK 1. We must take this chance.’

Thus, China 2’s prior knowledge seeking experiences enabled China 2 to have a good understanding about the UK market and UK 1 and achieve its objective in terms of being selected as a supplier for UK 1.
6.2.3.2 The acquisition effort

In order to successfully acquire a reputation, China 2 spent a considerable amount of effort.

Firstly, China 2 spent 2 years to meet UK 1’s requirements so as to get onto UK 1’s shortlist, and become one of the eight candidates for the project. According to respondents, when China 2 decided to aim to be the supplier of UK 1, it approached UK 1. However, UK 1 did not believe that Chinese firms could provide high quality products and services which would meet UK 1’s high standards. Respondent 4 (marketing manager) commented,

‘At first, UK 1 did not consider us, we did not even have a chance to be invited to bid.’
In order to be invited for bidding, China 2 needed to get into UK 1’s shortlist first. Due to UK 1’s strict requirements, China 2 spent a considerable amount of effort to tackle this weakness and pass UK 1’s examinations so as to get onto UK 1’s shortlist. Specifically, China 2 made the following efforts:

i. **Improvement in management systems**

   In 2000, China 2 employed IBM to be its consultant to restructure its inefficient management system. With respect to this, Respondent 4 (senior manager) made the following comments,

   ‘Before the management restructure, we had many problems in our management system. For example, regarding the on-time delivery rate, the average figure of western leading telecom equipment manufacturers is 94%, however, ours was around 50%; the fulfilment cycle time for us was 20-25 days, while the average level of international leading counterparts is only 10 days.’

   China 2 also spent tens of millions of USD and brought in the IPD (integrated product design) and ISC (internet system consortium) systems. According to Respondent 6, (assistant manager), the IPD and ISC systems greatly increased China 2’s level of management quality. Now China 2 had international-standard operating systems which enabled its products to have a high degree of compatibility with the world’s leading brands. Specifically, he pointed out that UK 1 had a high standard of firms’ management systems; the reform in our whole management system by introducing IPD and ISC was critical for China 2 to be able to get onto UK 1’s shortlist.

   

   ii. **Establish special teams**

   In 2003, China 2 invited Firm 2’s procurement certification teams to visit China 2’s headquarters after it finished its management system restructure. However, China 2 still did not fully meet UK 1’s requirements. After the first examination by UK 1’s procurement team, China 2 identified two major drawbacks, i.e. product quality management and on-time delivery. It immediately organized special teams to reflect on
these weaknesses. Respondent 6 (assistant manager) illustrated,

‘Special teams were organized to work on the weaknesses pointed out by UK 1……There were five main areas in the examination. It even includes a sector named human dignity which refers to staff”s living conditions that we can offer. We had not heard of it before… we made further improvements in each of these corresponding areas, finally, we were rated by UK 1 as generally satisfactory.’

After China 2 entered UK 1’s shortlist, China 2 was selected as one of the eight candidates for this project. China 2 further made the following effort, so as to beat other competitors and win the contract of sole provider.

iii. Employed two key people familiar with UK 1 and UK telecom market.

China 2 brought in two key people from their domestic rival, company Z. These two people were familiar with both UK culture and Chinese culture and also had a relationship with UK 1. Their participation facilitated China 2 to win the order from UK 1.

Respondent 1 (former senior manager in overseas market) revealed that,

‘Another factor that helped us to get the order is we hired two people from company Z. these two people used to work in UK 1 and were aware of UK 1’s requirement. For example, they gave us ideas on what aspects UK 1 cares about the most; and the different business styles between us and UK 1. They helped us to better communicate and understand UK 1’s requirement’.

Because of the thorough preparation and improvement, China 2 finally succeeded to become a partner of UK 1 and successfully gained a good reputation. The following factors have been identified to motivate China 2 to make the above thorough preparation.
Leader’s attitude to commit resources and make efforts

In this event, the company leader of China 2 has shown great determination to devote resources and capital to build up the requisite capabilities so as to get cooperation with UK 1. The leader of China 2 had a clear and forward-looking view about the significance of this project, i.e. to build up China 2’s reputation so as to successfully enter advanced markets. He believed that lack of reputation is the biggest bottleneck which hindered China 2’s future international expansion. Therefore, he treated this as an opportunity to strengthen China 2’s reputation by cooperating with UK 1 at the expense of short term profit, ‘a strategic battle that must win.’ Respondent 2 (former senior manager) illustrated,

‘Our leader has told the staff before this project that “we must get into the most advanced market and get decent orders from top operators. No matter what expenses we have to pay, no matter how much resources we have to invest, no matter whether we make or lose money.’

Figure 6.2: summary of underlying factors for efforts made in acquisition process
Summary of key event 1 of China 2

In this event, China 2 successfully gained the assets it targeted, i.e. reputation in advanced markets. In this process, employees’ knowledge base has also been observed to have increased.

China 2 demonstrated a good ability to identify the appropriate target to gain the assets it wanted. Its prior knowledge seeking experiences acted as the main factor facilitating China 2 to gain a good understanding about the targeted market and the target company. China 2’s thorough and long term effort in building up the requisite capabilities is the key to being able to gain the assets. The leader’s strong attitude towards resource commitment has been found to enable China 2 to make thorough efforts.
6.3 Key event 2: cross border strategic alliance with UK 2

6.3.1 Background

UK 2, a world leading mobile telecom operator headquartered in the UK, was the second important target of China 2 in its road to entering the European market. UK 2 is the leader in the world 3G market. At the end of 2005, China 2 and UK 2 signed the Global Framework Agreement. Later, in February 2006, China 2 and UK 2 jointly promoted 3G products in countries such as the UK, Germany, Italy, Ireland, Spain and Greece. China 2 successfully became the strategic cooperation partner of UK 2 in 3G mobile phone products for at least five years (company website).

6.3.2 Strategic benefits China 2 expected and results

Respondent 8 (engineer) commented that China 2 had invested heavily in 3G technology. Since the Chinese market did not issue 3G licenses, China 2 was mainly operating in other developing countries. With respect to this, Respondent 5 (marketing staff) confirmed, China 2 has had successful experiences in running 3G projects in less developed countries, however China 2’s 3G products still lack reputation in advanced markets. To build up its reputation in advanced markets is of strategic importance for China 2, to enter into advanced markets and enhance its international competitiveness in 3G products.

China 2 expected to build up its reputation in 3G products by being the strategic supplier of UK 2. An external respondent (government research institution analyst in telecom sector) commented on this by saying,

‘The European 3G market is one of the most advanced and competitive markets in the world. UK 2 is the leader of the world 3G market, it has tens of millions of 3G users. If China 2 could get the order, it would boost China 2’s reputation.’
In reference to the results of this event, all the respondents interviewed confirmed that China 2 successfully gained reputation and strengthened its 3G position in the European market.

Respondent 4 (senior manager) noted that China 2 satisfied UK 2’s requirements on 3G products in the aspects of product quality, operation, management and services. China 2 was also awarded the ‘Best provider of 2007’ by UK 2. He observed,

‘China 2 became UK 2’s sole cooperation partner in Europe, which demonstrated China 2’s high technology capabilities in 3G products, and also its ability to serve any telecom operators.’

An external respondent (investment bank analyst) also confirmed that before 2005, China 2’s 3G still relied on emerging markets, but after the contract, China 2 successfully gained approval from mainstream telecom operators and entered the world 3G high end market. He commented,

‘The cooperation represented the fact that, as a mobile manufacturer, China 2 had successfully entered the international market. It also meant China 2 had got the ticket to enter the top level of telecom industry. It also helped China 2’s international expansion in other markets.’

The table below summaries the assets China 2 targeted and the results.

<table>
<thead>
<tr>
<th>Strategic assets China 2 targeted</th>
<th>Strategic assets China 2 gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation in advanced market</td>
<td>Gained reputation which made China 2’s internationalization in other markets much easier</td>
</tr>
<tr>
<td></td>
<td>Gained approval from mainstream telecom operators</td>
</tr>
<tr>
<td></td>
<td>Awarded ‘Best provider of 2007’</td>
</tr>
</tbody>
</table>
6.3.3 Underlying factors in the pattern of asset acquisition

In this event, China 2 successfully gained reputation in advanced markets and strengthened its 3G technology position in the European market. The following two dimensions are identified which underlie China 2’s success in terms of the assets it aimed for. Firstly, China 2 had a good identification ability by aiming for strategic cooperation with UK 2’s 3G projects. Also, the requisite capabilities already built by China 2 were critical for it being selected as UK 2’s cooperative partner. These two factors will be presented below.

6.3.3.1 Identification

China 2 showed a good understanding about the target. With regard to this, Respondent 1 (former senior manager in overseas department) commented that UK 2 is an appropriate target to build up China 2’s reputation and enhance China 2’s 3G technology position in advanced markets. Specifically, he observed,

‘UK 2 thinks highly about 3G, and puts a lot of resources into it. In Europe, UK 2 spent 20billion pounds on purchasing 3G licenses. Almost all its subsidiaries have 3G licenses. This strategy is in accordance with China 2’s development strategy.’

Similarly, Respondent 7 (engineer) confirmed this view and pointed out that ‘UK 2 is the best partner to China 2.’

Ability to identify technology trend

Being able to identify the technology development trend has been found to be the critical factor for the success of this event. Regarding this, an external respondent (investment banking analyst) commented,

‘China 2 chose to cooperate with UK 2, since it knows that the future promising area is in the 3G sector. As a new player, if China 2 wants to become a top player it must seize the opportunity and
utilize UK 2’s 3G project to establish its reputation and enter into the 3G market.’

The main reason behind China 2’s ability to identify the value of the target is because of China 2s’ constant high investment on R&D. China 2 kept investing 10% of its sales on R&D\(^4\). It also cooperated with leading MNEs, and established overseas R&D centres. Respondent 8 (engineer) explained, ‘The companies we cooperated with are all first class world companies, with top R&D capabilities. That’s what we want.’ Besides, Respondent 7 (engineer) indicated China 2 also possessed core technology for many products, such as the advanced ASIC (Application Specific Integrated Circuit) technology, which is at world-leading level. Respondent 1 (former senior manager in overseas subsidiary) further confirmed,

‘When we set up an R&D centre in a foreign market, we have to first know about the market, like the rules or the business systems there. The overseas R&D centres allow us to stand at the forefront of new technology’

Because of its constant high investment on R&D, China 2 can identify the promising potential of 3G technology and keep making investment in this advanced 3G technology. Since 1998, China 2 started to invest one third of its R&D investment in 3G technology. The respondent commented,

‘These years, we have invested thousands of technology talents and 6billion Yuan on 3G.’

Thus, China 2’s constant investment on R&D enable China 2 to recognize the value of 3G technology and therefore chose UK 2 as the right target to fulfil its strategic aim.

\(^{4}\) Company internal newspaper
6.3.3.2 The acquisition effort

Pre-developed requisite capabilities

In this event, China 2 went through many tests from UK 2. Similar to key event 1, it established a special team to communicate with UK 2, and made adaptations and corrections wherever needed. These tests required a large amount of capital and energy, according to Respondent 8 (engineer), ‘for example, we were required to build a testing network in Spain.’ In these tests, China 2 had achieved the required results.

Respondent 2 (former marketing manager) suggested that this was because China 2 had already got the requisite capabilities in response to two core criteria raised by UK 2, i.e. technology innovation and management systems. Respondent 8 (engineer) suggested that UK 2 were very satisfied with China 2’s technology capability. He further gave the following example he read from the company’s internal newspaper,

‘In 2005, Firm 4 tested our WCDMA network function by..."
establishing a network covering a high speed railway. When trains came, the network signal would intervene. The usual successful rate of voice call is no more than 56%, but using our network, the rate reached to more than 95%.

In terms of managerial capability, Respondent 6 (assistant manager) commented that UK 2 did a lot of investigation about the management quality of China 2 and its suppliers and clients. After a series of tests, UK 2 thought highly of China 2’s management systems. He further indicated that this was largely due to China 2’s prior restructure of the management systems.

Thus, China 2 successfully won the order and gained reputation it aimed for, due to its heavy resource commitments and its prior developed technological and managerial capabilities.

Figure 6.4: summary of underlying factors for efforts made in acquisition process

| Pre developed requisite capabilities helped firms to acquire assets | Moderate efforts have been made |

Summary of key event 2 of China 2

China 2 successfully gained the assets it targeted, i.e. to gain reputation in terms of 3G technology products in advanced markets.

China 2 demonstrated a good ability to identify the appropriate target to gain the assets it wanted. Its strong technology capabilities enabled China 2 to identify the appropriate target. China 2’s previously-developed requisite capabilities in terms of technology and management facilitated China 2 to meet the objective successfully.
6.4 Key event 3: attempted to acquire UK 3 but aborted

6.4.1 Background

UK 3 was a telecom equipment manufacturing giant competing with world leading MNEs. Since 2000, UK 3 had been demonstrating a poor financial performance. In 2005, it started to look for buyers to acquire the whole company. At that time, China 2 had entered into the European market, however, still at a preliminary stage. China 2 intended to acquire UK 3 so as to get marketing channels, to strengthen its brand image in international markets and what is more to get managerial talents and R&D talents. China 2 offered 0.682 billion pounds to acquire UK 3, however, company E offered 1.3 billion pounds, which was 100% higher than the market price of UK 3. After careful analysis about the value of the assets, China 2 believed that the price company E offered was far more than the value of the assets. Thus China 2 gave up the acquisition. Although the event was aborted in the end, it demonstrates China 2’s ability of identification in undertaking SAS events.

6.4.2 Strategic assets China 2 targeted and results

In this event, China 2 was attracted to UK 3’s brand image, management team, R&D talents, customer resources and marketing channels in the UK. According to Respondent 2 (former marketing manager), it was difficult to purely rely on China 2 itself to develop these assets in the European market. These assets were what China 2 lacked. The following section explains these in detail.

Respondent 1 (former senior manager in overseas subsidiary) pointed out that China 2 had around 1000 employees in the European market, but it was still insufficient to support its multiple businesses in Europe. China 2 wanted to gain human resources through acquiring UK 3 so as to add human resources to its UK subsidiaries. According to respondent 1 (former senior manager in overseas subsidiary), ‘to us, the most
valuable asset of UK 3 was its European service systems. We needed a high quality management team and UK 3’s human resources would be a good supplement.’

Besides, UK 3 had affluent customer resources and networks in the UK, France and Belgium, the customer resources and distribution channels would compensate for China 2’s weakness in competing in the European market.

In terms of gaining reputation, an external respondent (government analyst) commented that the acquisition would be the first European company in which China 2 holds shares. Furthermore, he noted that for a young Chinese enterprise to acquire an old and leading MNE would strengthen its reputation. An external respondent (government analyst) added that the acquisition would also offer China 2 a bigger platform, and approach to the core market.

Results
Respondents interviewed provided a positive estimation about the results of this event. An external respondent (government analyst) commented that UK 3 is a good target to fulfil the strategic assets China 2 aimed for. However, the acquisition was aborted because company E offered a much higher bid than China 2. The table below summarizes the assets China 2 attempted to obtain. Next, the factors underlying this event in terms of identifying targets will be analysed.

<table>
<thead>
<tr>
<th>Strategic assets China 2 targeted</th>
<th>Strategic assets they gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand assets</td>
<td>N/A</td>
</tr>
<tr>
<td>R&amp;D talents</td>
<td>The acquisition was aborted as another western MNE offered a price much higher than its worth.</td>
</tr>
<tr>
<td>Managerial personnel</td>
<td></td>
</tr>
<tr>
<td>Marketing channels</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.4: key event 3: summary of what China 2 expected to gain
6.4.3 Underlying factors in the pattern of asset acquisition

Although China 2 aborted the acquisition in the end, the event demonstrates China 2’s ability in terms of identifying an appropriate target. The related factors are discussed in detail below.

6.4.3.1 Identification

China 2 showed a good ability to identify the appropriateness of the target not only in terms of the value of the assets but also the difficulties associated with the assets.

On one hand, China 2 recognized the value of the assets UK 3 possessed. As confirmed by an external respondent (university scholar), ‘UK 3 would be the best choice for China 2 to develop in the European market.’ On the other hand, China 2 was aware of the drawbacks and challenges coupled with these assets. When company E offered a much higher price to acquire UK 3, China 2 suspended its acquisition plan, as it believed the price far exceeded the value of the assets. According to Respondent 1 (former senior manager in overseas subsidiary),

‘Through weighing the advantages and disadvantages, we formed the evaluation that the current assets of UK 3 were not worth the higher bid from company E.’

An external respondent (investment banking analyst) confirmed this view and commented that China 2 made rational decisions to give up the acquisition. He further revealed,

‘In 2004, China 2’s overseas revenue was 2.28billion US dollars. If China 2 insisted on acquiring Firm 4 by offering a higher bid than company E, it would cost China 2 one year’s overseas revenue. That would be too risky.’

Specifically, the following two factors have been found underlying China 2’s ability to form a good understanding about the target.
A: Prior ties with the target: identify the value of the assets

As early as 2005, China 2 had collaboration experiences with UK 3. They established a strategic alliances agreement, according to which UK 3 sold China 2’s advanced digital telecom products to its main clients, while China 2 sold UK 3’s next generation access products to China 2’s main clients. They also discussed how to use UK 3’s service system to help China 2 to sell its products in Europe. The cooperation enabled China 2 to better understand UK 3’s assets. Therefore, China 2 started to approach UK 3 and had some contacts and negotiations with them. Specifically, Respondent 2 (former senior manager of overseas market) commented,

‘In our last cooperation, we had already noticed the value of UK 3. We found that UK 3 had assets which could help us strengthen our competitiveness in the European market. Assets such as its marketing channels, R&D talents, managerial talents would all be good supplements to our European business.’

B: Familiarity with European markets and regulations: identify the potential costs coupled with the assets

Besides, since China 2 had entered into the European market, it had possessed the knowledge about this market. When company E offered a much higher bidding price, China 2 re-evaluated the potential costs coupled with the benefits it could get from acquiring UK 3. China 2 found that if it continuing bidding, the potential cost would exceed the potential benefits it could have gained. As explained by Respondent 4 (marketing manager),

‘The other thing we have also considered was the issue of human resources. Once we bought UK 3, we would have to deal with human resources adjustment and restructure. It’s unavoidable that we would cut down the cost of labour. The labour union is very mature in Europe, and the whole system is very well developed. The redundancy package would cost us a large amount of capital, even higher than the offer price.’
Thus, China 2 identified the potential cost of dealing with human resources of UK 3 which would exceed the value of the assets and discontinued bidding for UK 3. This aborted acquisition reflects China 2’s ability to identify the target which is not appropriate given the high price.
Summary of key event 3 of China 2

In this event, China 2 targeted the right assets which could have built up China 2’s competitiveness in terms of brand influence, management teams, and marketing capabilities in the European market.

In the end, China 2 aborted the acquisition after it identified the benefits and difficulties of the assets. It showed a good ability to identify the appropriateness of the target. Specifically, prior experiences with target and prior knowledge about market regulations contribute to a good ability of identification.
Chapter 7

CASE 3--CHINA 3

7.1 Company background

China 3, established in 1984, is one of the leading Chinese home appliances manufacturers. Its main products include refrigerators, colour TVs, washing machines, and personal computers. In 2004, China 3 ranked 95 of the world’s 100 most influential brands (company website). In 2008, it became the world’s 4th biggest home appliances manufacturer. With more than 30,000 employees worldwide, it has 30 overseas manufacturing bases, 22 trading companies and 8 R&D centres around the world by 2009.

China 3 has a long international history (See Table 7.1 for China 3’s international experience). In China 3’s internationalization process, it deliberately chooses to enter into developed countries first and then developing countries. Its first internationalization activity was to export 20,000 refrigerators to Germany in 1990. In 1994, it started to conquer the USA, European and Japanese markets through export. In April 1999, China 3 established an overseas production factory in South California, America, expecting to build up its reputation, also to gain marketing knowledge and local management teams in advanced markets. This event is introduced as the key SAS event 1 by China 3 and will be developed in more detail in the following section. In 2005, China 3 intended to acquire US 2 so as to obtain marketing distribution channels, R&D talents and the brand name of US 2 (key event 2 by China 3). Although this acquisition was aborted due to another US firm offering a much higher price, this event reflected China 3’s absorptive capacity in the dimension of identification ability. In 2006, China 3 cooperated with Japan 1 in order to gain two specific technologies (refrigeration technology and large-sized refrigerator manufacturing technology) which
were perceived to help China 3 to enter into the European mainstream market. They also hoped to gain Japan 1’s R&D resources and marketing channels (key event 3 by China 3). In this study, these three key events which were suggested by respondents as having a strong strategic asset-seeking intent are included and analysed below in detail.

Table 7.1: China 3’s international experience

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>Established</td>
</tr>
<tr>
<td>1990</td>
<td>Exported to Germany</td>
</tr>
<tr>
<td>1994</td>
<td>Exported to US</td>
</tr>
<tr>
<td>1996</td>
<td>Established the first wholly owned factory in Indonesia</td>
</tr>
<tr>
<td>1999</td>
<td>Established a production factory in South California, America (SAS event 1)</td>
</tr>
<tr>
<td>2002</td>
<td>Established headquarter in New York US</td>
</tr>
<tr>
<td>2002</td>
<td>Collaboration with Japan 1</td>
</tr>
<tr>
<td>2005</td>
<td>Attempted to acquire US 2 (SAS event 2)</td>
</tr>
<tr>
<td>2006</td>
<td>Majority JV with Japan 1 (SAS event 3)</td>
</tr>
</tbody>
</table>

7.2 Key event 1: establishing wholly owned manufacturing base in US

7.2.1 Background

In 1994, China 3 started to export refrigerators to the US market. Since 1998, the demand for China 3’s refrigerators in the US market increased rapidly. The exports in 1998 amounted to 17 million USD; in 1999, however, the figure reached 31 million USD (company document). The rapid increase in export caused considerably higher transportation fees, i.e. the cost of shipping products from China to the US. Thus, China 3 started to consider establishing a manufacturing centre in the US. China 3 sought
multiple benefits from this investment, such as to reduce transportation costs, to be able to place a ‘made in USA’ label on its products and to circumvent trade barriers. Apart from the above benefits, China 3 intended to take the chance to raise its overall capabilities to international level through competing in advanced markets. Specifically, to build up its brand awareness globally, to gain market experiences in advanced markets and gain local talents were the major strategic benefits that China 3 aimed for. In 1999, China 3 chose South California as the appropriate site and established the sixth largest refrigerator factory in the USA with an annual capacity of 500,000 sets. It is also the largest investment ever made by Chinese manufacturers in USA. Now the factory has become a first class factory with top level production lines and products.

7.2.2 Strategic benefits China 3 aimed for and results

In establishing WOS in the US market, China 3 aimed to build up its reputation, gain knowledge and experiences in advanced markets and local talents. As observed by respondent 2 (marketing manager in refrigerator department), these assets were regarded as the bottlenecks of China 3 to compete in advanced markets. China 3 wanted to build up a globally recognized brand name. In reference to this, respondent 1 (senior manager) confirmed, ‘Reputation, especially in advanced markets, is what we want.’ Respondent 5 (assistant manager in human resources department) also confirmed that,

‘We can gain the newest industry information and communicate with local management talents; it worth the expenses we paid.’

In reference to the effectiveness of this event, the benefits that China 3 gained through this event are discussed below.

1. Reputation

Through this event, China 3 successfully raised its reputation in the global market.
Respondent 1 (senior manager) commented, ‘If we can successfully compete in the US market, it will help us to enter into other overseas markets much more easily’.

According to respondent 2 (marketing manager in refrigeration department), one year after China 3 established manufacturing bases in south California, its sales in the US market increased dramatically. He observed that

‘The event helps consumers and competitors in international markets to know us. Gradually, our brand has been recognized by home appliance retailers in the USA.’

Similarly the investment bank analyst also confirmed this view and pointed out that the good performance of China 3 in the most competitive market in the home appliance sector indicated that China 3 has the ability to compete with western MNEs. This positively increases China 3’s brand influence in other markets.

Besides, the investment itself also boosted China 3’s brand awareness globally. Respondent 3 (assistant manager of training centre) observed that China 3’s entry into the US market by establishing a wholly owned manufacturing base was regarded as an unusual investment then. He further explained that, since normally firms from developing countries would rather take advantage of low production cost in their home countries or other less developed countries than establishing a manufacturing base in high cost advanced markets, the large wholly owned investment that China 3 made in the US market had received much attentions from both the foreign and domestic media, which increased its brand awareness.

2. Knowledge and experiences in advanced markets
China 3 also intended to gain knowledge and experience of how to operate in advanced markets. Respondent 2 (marketing manager in refrigerator department) observed,

‘To establish a production factory in the US has very strict requirements. It is a good chance for us to accumulate
knowledge and experience, also to improve ourselves.’

By establishing a wholly owned manufacturing base in the US market, China 3 actively participated in local manufacturers’ organizations to build up networks and communicate with other parties. For example, it joined the American electronics association. Through these means, China 3 obtained the latest knowledge and information about the market and industry. Respondent 1 (senior manager) commented,

‘Although the factory cost us a large amount of capital, we are now standing at the forefront of the home appliances market. The US factory has also transferred useful information and new concepts back home which also increased the competitiveness of our products in the domestic market.’

China 3 also gained experience of building up its own factory in advanced markets. It summarized three key points in operating in advanced markets, which are making good use of local capital, local intelligence, and getting familiar with local culture. Specifically, Respondent 2 (senior manager in refrigeration department) pointed out that the experiences China 3 gained in the US market were very helpful for it to subsequently establish a production base in European markets. He explained,

‘after establishing a factory in the US market, we successfully established factories and design centres in other European markets such as Italy, France, and Netherlands, in a similar way to the US.’

3. Local management teams
Respondents indicated that China 3 successfully gained a high quality management team in this event. According to Respondent 3 (manager of training centre), China 3 recruited many experienced people in the American home appliance industry. At the beginning of the establishment, China 3 sent domestic staff to help to build up the factory. Within one and half years, China 3 localized the management of the factory.
Specifically, Respondent 2 (marketing manager in refrigerator department) explained,

‘When establishing the US production base, we only sent 12 Chinese employees. When the factory started running, all the employees including president, senior managers, and ordinary employees are local Americans.’

High payment was made to attract these local talents, for example, Respondent 5 (assistant manager in human resources department) commented, China 3 paid the senior manager 250,000 USD basic salary. Now, there are a group of 200 talented and experienced employees in the factory. Each member has more than 15 years of experience in the home appliance sector. Respondent 5 (assistant manager of human resources) observed,

‘the senior vice CEO of the China 3 American factory has much experience in the US home appliance industry. He holds the degree of PhD, and is proficient in project management, operation, marketing, corporate finance etc.’

Respondents also indicated that these local talents brought in advanced management systems to China 3. According to Respondent 1 (senior manager), the experienced management team introduced and improved the company’s MPR system, order system, purchase system, and corporate finance sector etc. An external respondent (investment bank analyst) confirmed this view and observed that,

‘China 3 fully utilized the advantages of local management teams. These local management talents brought in advanced management styles and helped China 3’s US factory to operate at an international level.’

In summary, China 3 successfully gained the strategic benefits it targeted, i.e. reputation, knowledge and experiences of advanced markets and foreign management teams. The table below summarizes the strategic benefits China 3 aimed for and the results.
Table 7.2: Summarizes strategic benefits China 3 aimed for and results

<table>
<thead>
<tr>
<th>Strategic benefits China 3 targeted</th>
<th>Strategic benefits China 3 gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>Gained worldwide reputation, successfully boosted brand awareness</td>
</tr>
<tr>
<td>Knowledge and experiences of operating in advanced markets</td>
<td>Gained experiences which helped China 3 to successfully expand into the European market</td>
</tr>
<tr>
<td></td>
<td>Gained knowledge about local market and forefront industry information</td>
</tr>
<tr>
<td>Local talents</td>
<td>Successfully gained high quality experienced management team</td>
</tr>
<tr>
<td></td>
<td>Local management talents brought in advanced management systems to China 3.</td>
</tr>
</tbody>
</table>

7.2.3 Underlying factors in the patterns of asset acquisition

In this event, China 3 successfully established a wholly owned manufacturing base in the US. It successfully gained the assets it targeted, i.e. reputation, knowledge and operation experiences in advanced markets and local talents. The following two dimensions are identified to underline this result.

7.2.3.1 Identification

China 3 identified establishing a manufacturing factory in the US market as an appropriate means to acquire strategic benefits it targeted. According to Respondent 3 (manager in training centre), China 3 had a good understanding about the US market. Specifically, he explained,

‘US, as the biggest electronic consuming market, attracted all the world’s big home appliances manufacturers. Entering into
the US market and competing with world MNEs and winning market share in the US is of strategic importance to the firm’s overall internationalization strategy.’

The following two factors have been found to facilitate China 3 to identify the right target to fulfil its strategic intents.

A. Prior ties with the target: Familiar with market culture

Before China 3 made the decision to invest in a manufacturing base in the US, it already had 5 years export experiences in the US market. In exporting to the US market, China 3 employed local people as its exclusive sales representatives. Respondents commented that through close interaction with local people and markets, China 3 had accumulated basic knowledge about the US market and identified the culture differences. With regard to this, Respondent 2 (marketing manager) observed, ‘We had a close working relationship with our exclusive sales representatives. Through doing business with them, we found the big culture differences between China and western countries. … This taught us a lesson to hire local people to run our manufacturing bases. It would largely reduce the potential issues of culture conflict.’

B. Prior knowledge-seeking experiences: choose to enter into the difficult market first then go to easy ones

An external respondent (university scholar) indicated that China 3’s prior knowledge seeking experiences, i.e. deliberately choosing to enter into developed countries first so as to gain knowledge and improve its capabilities, determined its investment in the US market to be a natural choice for it to acquire the strategic benefits it targeted.

As early as 1990, China 3 had firstly exported to Germany. Then it exported to the US
market, other European markets and Japanese markets. On one hand, the investments are driven by China 3’s consideration that if it can open the market and succeed in developed countries, it would be much easier for them to open other markets. On the other hand, these investments were motivated by its consideration that entering into advanced markets can enable China 3 to improve itself in different aspects. For example, respondents indicated that when China 3 exported to the Japanese market, it improved China 3’s product quality and quality management. Similarly, entering into the European market increased China 3’s capability in building up brand image and identity. Thus, China 3 chose the US as the appropriate target to acquire strategic benefits and this is attributed to its prior international knowledge seeking experiences. Respondent 1 (senior manager) also confirmed this view and observed,

‘Our leader once told us that to go to less developed countries, it would surely be easier, but the thing is what we can learn from it. We had exported to advanced markets before, and we improved our capabilities in many aspects. … Therefore, this time, we were encouraged to make direct and larger investments in the US market, as we were motivated to gain more benefits.’
7.2.3.2 The effort made to acquire the strategic benefits

After China 3 decided to establish a factory in the US, it devoted large amounts of resources and made thorough efforts to select the appropriate site. According to Respondent 3 (assistant manager of training centre),

‘We sent many people to visit the US and made thorough investigation in various states... we also invited local consulting experts to evaluate different places in order to choose the most suitable site.’

Through inviting consulting experts and several rounds of site visits, China 3 gained
thorough knowledge about different states. It finally chose South California as the
appropriate location, since, as commented by Respondent 1 (senior manager), it had
policies which supported inward FDI that China 3 could take advantage of, also the
labour cost was relatively low in South California. According to Respondent 2
(marketing manager), South California attracted the second most FDI in the USA. The
state government offered favourable policies for China 3 to establish a factory here, for
example, China 3 could get tax deductions by hiring local staff, and get a property tax
reduction for 20 years. Meanwhile, the labour wage in South California is lower than
the average wage of US workers. The state has a stable labour-capital relationship, and
fewest work unions. More specifically, Respondent 5 (assistant manager of human
resource) explained,

‘Only 1.8% of employees in south California joined a labour
union, it would be easy for us to handle potential labour
issues.’

This thorough and detailed investigation provided China 3 with specific local market
knowledge including labour environment, the government policy and culture factors,
which eased the potential difficulties and helped China 3 to gain the benefits it aimed
for. In particular, the leader’s support for resource commitment was suggested by
respondents as a key driving force for China 3 to make thorough efforts.

**Leader’s attitude: strong support for resources commitment**

China 3 had a good understanding about the difficulties and risks it might face. As a
Chinese manufacturer, to establish a wholly owned manufacturing base in the US
market is a risky action. What is more, Respondent 1 (senior manager) commented that
the investment was even larger than its existing biggest manufacturing base in China.
He observed, ‘We faced much opposition and many challenges from various aspects’.
Specifically, two difficulties were identified as major potential problems China 3 might
encounter: 1) can its products be accepted by US consumers? And 2): can its
management culture be accepted by local employees?’
Being aware of the difficulties and risks, the leader of China 3 attached great importance to making thorough efforts to ensure the success of the investment. According to Respondent 4 (engineer), ‘our leader told us that when establishing a factory in the US, we need to be proactive and careful as well.’ Similarly, Respondent 3 (manager in training centre) also confirmed the leader’s positive attitudes towards making efforts so as to acquire the benefits China 3 aimed for. He pointed out that the leader went to the US many times in person and commented,

‘The leader discussed with special teams how to solve these potential difficulties during the investment…. Therefore, we made thorough efforts to overcome the potential difficulties. We took initiative to undertake the risks, but also were very careful about the risks in the market, and made many preparations and investigations in order to succeed.’

**Figure 7.2: summary of underlying factors for efforts made in acquisition process**
Summary of key event 1 of China 3

In this event, China 3 established a wholly owned manufacturing base in the US and successfully gained the strategic benefits it aimed for, i.e. reputation, knowledge and experiences in advanced markets and local management team.

China 3 identified the appropriate target to fulfil its strategic intents, which suggested its good identification ability. Its prior ties with target and prior knowledge-seeking experiences contributed to the right expectation about what can be gained by establishing a factory in the US. Besides, China 3 was found making thorough efforts in order to successfully gain the benefits. The thorough efforts facilitated China 3 to successfully gain the benefits it aimed for. In particular, the Leader’s attitude towards devoting resources has been identified as the major factor driving the firm to commit resources.
7.3 Key event 2: attempted to acquire **US 2** rather than **US 3** and **French 1**

7.3.1 Background

By 2005, China 3 had been in international markets for 15 years. It had entered into US and European markets, however, it still did not enter into mainstream product sectors in these advanced markets. For example, in the US market, China 3 performed well in the small-sized refrigerator sector with a market share of around 50% in 2005, yet in the mainstream large-sized refrigerator sector, it only accounted for 2%. Respondent 1 (senior manager in refrigerator sector) explained, China 3 had been playing in the US market for many years, however, still had not built up marketing channels which can enable them to enter into mainstream markets. China 3 found that it was not easy to rely on itself to enter into the mainstream sector in advanced markets as it lacked strong brand image and high-end products and technology. Thus, it intended to take over foreign enterprises so as to help it to enter into mainstream markets. Then, China 3 had several opportunities, including US 2, US 3 and French 1 among others. These firms all had approached China 3 with regard to selling their home appliances sectors. China 3 identified US 3 and French 1’s home appliances sectors as inappropriate targets therefore rejected the deals. On the contrary, it chose to bid for US 2 which was evaluated by China 3 as possessing the valuable assets it needed.

US 2, with more than 100-years history, was the third largest home appliances manufacturer in America. Its main products were vacuum cleaners, refrigerators and colour TVs. China 3 offered a bid of 1.2 billion USD. Although the acquisition was aborted in the end as Whirlpool offered a much higher bid, it demonstrated China 3’s identification ability in undertaking the SAS events.
7.3.2 Strategic assets China 3 targeted and expected results

According to Respondent 1 (senior manager in refrigerator sector) China 3 was weak in the following aspects in terms of accessing high-end markets, i.e. marketing channels, strong brand image and R&D capabilities in high end products.

With respect to the expected results, he further explained that China 3 identified US 2 as the appropriate target, and it expected to gain these assets it lacked from the acquisition so as to compensate for its competitive disadvantages. He observed,

‘To acquire US 2 can give us a complete chain from brand, marketing channels, R&D resources, and manufacture. … especially, US 2 has high-end products with a good reputation; this would compensate for China 3’s weakness of still not having main stream high end products in America.’

Similarly, the investment banking analyst confirmed this view and commented that, if China 3 could successfully acquire US 2, it would make China 3 one of the biggest home appliance manufacturers in the world. He explained,

‘US 2 had exactly what China 3 wanted; it would help China 3’s expansion in the mainstream market. … US 2’s brand and marketing channel were well developed, meanwhile China 3 can lower the high costs of US 2 by utilizing China 3’s global production bases.’

However, the acquisition was not fulfilled as another US company USw offered a much higher price which was ‘beyond the rational price of US 2’ in Respondent 3’s words.
Table 7.3: key event 2: summary of what China 2 expected to gain

<table>
<thead>
<tr>
<th>Strategic assets China 2 targeted</th>
<th>Strategic assets they gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand assets</td>
<td>N/A</td>
</tr>
<tr>
<td>Marketing channels</td>
<td>The acquisition was aborted as another western MNE offered a price much higher than its worth.</td>
</tr>
<tr>
<td>R&amp;D talents</td>
<td>MNE offered a price much higher than its worth.</td>
</tr>
</tbody>
</table>

7.3.3 Underlying factors in the pattern of assets acquisition

Except for US 2, China 3 also had options to acquire US 3 and French 1’s home appliances units so as to address its disadvantages. Both US 3 and French 1 were western MNEs attempting to sell their home appliances units to China 3. However, China 3 chose US 2 instead of US 3 and French 1 to fulfil its strategic intents. In this event, China 3 showed a good ability to identify the appropriateness of targets. Nonetheless, the acquisition was aborted; it demonstrated the role of good ability to identify the value of external assets in undertaking SAS events. The related dimension of identification is explained below.

7.3.3.1 Identification

China 3 has a good understanding about the three potential targets including their benefits and drawbacks. Below we will briefly explain China 3’s understanding about these three potential targets respectively.

A: Good Understanding about US 2
China 3 identified US 2 as the appropriate target to provide the assets it needed. This is because:

Firstly, although US 2 was facing bankruptcy, it has high-end products with a good reputation and high quality. According to the respondent, the main reason of US 2’s loss is due to its high cost and the financial crisis in 2001 in the US market. External
respondent 1 (senior journalist in electronic appliances sector) commented, since after ‘911’ the American economy was in recession, consumers were not able to afford expensive home appliances. Thus the sales of US 2 dropped dramatically, and it could not maintain the operation of its high cost R&D and services. But the quality of US 2’s products is very good.’ Secondly, through thorough research and investigations, China 3 found that it could maintain the acquired high value business by lowering the operating cost of US 2. With respects to this, respondent 2 (senior manager in refrigerator department) illustrated,

‘…for example, we found that only 20% of the product components of US 2 were made in developing countries, but we could utilize our domestic cost advantage and lower the cost by providing at least another 25% of the components.’

Thus, in June 2005, China 3 offered 1.2 billion US dollars to acquire US 2, however, one month later, Whirlpool (another big US company) offered 2.3 billion to acquire US 2. China 3 decided to discontinue bidding for US 2. With regarding to this result, respondents provided the following two reasons:

Firstly, China 3 was aware of the poor financial performance of US 2. According to respondent 2 (senior manager in refrigerator department), ‘US 2’s operating cost keeps growing, so do its debts. The company’s debt was around 1 billion US dollars.’ An investment bank analyst also confirmed this view and observed that US 2’s share price had dropped dramatically and been placed as junk bond. Given the high bidding price and US 2’s poor financial performance, China 3 needed to reconsider whether US 2 was worth such a high price.

Secondly, how to keep the acquired human resources and high operating cost, given the high bidding price, also made China 3 hesitate in continuing bidding. Respondent 3 (manager in training centre) pointed out, ‘our profit margin is low. Given the high
bidding price, it would be a big challenge facing us to absorb the high cost of labour in the American company. Besides, how to lower the cost of purchasing spare parts and how to lower the cost of marketing promotion were also big problems.’ Respondent 1 agreed and commented, ‘What we can pay has a limit, also what we are able to absorb has a limit. We need to balance this well.’

Thus, after a careful consideration about the potential benefits and difficulties, China 3 decided to give up offering a higher bid. Likewise, external respondents all commented that giving up bidding for US 2 was a wise decision made by China 3. An external respondent observed, ‘What USw offered has exceeded the rational price of US 2.’

**B: Good understanding about US 3**

US 3 is also a world famous electronic appliances manufacturer. It wanted to sell its home appliances department to China 3. According to Respondent 5 (human resource manager), US 3 possessed valuable assets China 3 aimed for, such as advanced technology related assets, well developed marketing channels and brand names. However, when China 3 analysed these assets deeply, it found that there were many big problems with these assets. For example, China 3 identified the difficulty to utilize US 3’s R&D department. As commented by Respondent 4 (engineer),

‘US 3’s R&D in home appliances is mainly in the form of cooperation with other parties… It would cause problems for us to keep the relationship with those companies and handle the issues of technology patents.’

Also, the brand asset of US 3 was complicated for China 3. Respondent 1 confirmed that, ‘US 3 has many business sectors but doesn’t have subsidiary brands, …. Even if China 3 acquired US 3, what China 3 can get is the allowance to use its brand for a certain period of time; we have not figured out how to build up our own brand through this means.’
With reference to marketing channels, China 3 believed that it was unable to maintain the value of the marketing channels. Respondent 1 explained,

‘Without brand advantage, and the potential difficulties in acquiring R&D patents, it was difficult for us to keep the advantage of the marketing channels and maintain the relationships of marketing channels. Thus, we decided not to take the deal.’

C: Good understanding about French 1
In the meantime, French 1 also approached China 3 attempting to sell its loss-suffering home appliances sector. China 3 rejected this deal. This was because during the investigation, China 3 found French 1’s assets were not valuable. According to Respondent 2 (manager in refrigerator department),

‘French 1’s brand is not advanced, neither were its technologies. Firm 3 had good R&D personnel, but if we couldn’t make good use of its R&D team, the whole assets would mean zero… However, it’s not easy to control and utilize the R&D personnel well. Therefore, its R&D resources and its brand are questionable to us. We would spend money for nothing.’

An external respondent also confirmed this view and pointed out, ‘The strategic assets that China 3 were attracted to are R&D resources, marketing channels and brand assets, but what French 1 had are mainly manufacturing factories.’
Summary of key event 2 of China 3

In this event, China 3 had three acquisition options to fulfil its strategic intents. Among these three firms, it identified US 2 as an appropriate target to provide the assets it needed. However, when the bidding price of US 2 exceeded the rational value of the assets, China 3 decided to give up the acquisition, which reflected its good understanding about the benefits and drawbacks of US 2’s assets. In the meantime, China 3 identified the inappropriateness of US 3 and French 1’s home appliance units, therefore, decided not to acquire these two. Even though the acquisition of US 3 was aborted, it demonstrated the role of China 3’s ability to identify the value of an external target in determining its SAS events.
7.4 Key event 3: joint venture with Japanese 1

7.4.1 Background

Japan 1 is a world famous home appliances manufacturer. It has strong R&D capability in the home appliances sector, especially in the field of refrigerators. However, in recent years, its refrigerator department did not perform well. In 2004, the deficit of its refrigerator department had reached 171 billion Yen (company document). It was keen to sell its refrigerator department. In 2006, China 3 and Japan 1 established a joint venture in Japan. In this JV, China 3 invested capital to hold 60% of the shares; Japan 1 invested its whole R&D resources in refrigerators and accounted for the remaining shares. Through this means, Japan 1 transferred its refrigerator department to China 3. China 3 also acquired Japan 1’s Thailand refrigerator factory which held the most advanced technology in air refrigeration technology.

7.4.2 Strategic assets China 3 wanted and results

Lack of strong R&D capabilities was regarded by China 3 as one of its weaknesses. Respondent 4 (engineer) observed that China 3 still didn’t possess core technology in the refrigerator sector, thus, it was keen to build up its R&D capabilities through acquiring Japan 1’s refrigerator department. Similarly, respondent 3 (assistant manager in research institution) observed,

‘We intended to increase our R&D capabilities, the most important assets that China 3 wanted from Japan 1 was its whole R&D department in refrigerators.’

Specifically, China 3 also targeted two technologies: refrigeration technology and large-sized refrigerator manufacturing technology. China 3 intended to utilize these two technologies to enter into the European mainstream sector. Respondent 4 (engineer) commented that Japan 1 had the world’s most advanced refrigeration technology and
advanced large-sized refrigerator manufacturing technology.

Apart from the technological related assets, Respondent 1 (senior manager) commented, Japan 1’s marketing channels are what China 3 wanted to gain. He observed that the Japanese mainstream home appliance market was very difficult to access. China 3 intended to take this chance to utilize Japan 1’s marketing channel to enter into the mainstream Japanese market.

With reference to the effectiveness of this event in terms of assets gained, respondents all confirmed that China 3 successfully gained the assets it aimed for from Japan 1. In terms of R&D resources, Respondent 1 (senior manager) observed,

‘Japan 1's R&D team is very important to strengthen our R&D capabilities. Later on, we attempted to develop a side-by-side combination refrigerator… we fully utilized their R&D resources to build up the refrigerator.’

Similarly, an external respondent (researcher in government institution) confirmed this view and explained,

‘China 3 gained Japan 1’s whole refrigerator R&D resources. Both the new acquired R&D personnel and China 3’s R&D team were devoted to developing new products. It strengthened China 3’s R&D capabilities and accelerated China 3’s internationalization.’

Besides, China 3 also gained the two specific technologies it aimed for. Respondent 2 (senior manager in refrigeration department) confirmed that the specific technology gained from Japan 1 successfully helped China 3 to enter into the mainstream market in Europe.

With reference to marketing channels, Respondent 1 (senior manager) observed that since then China 3’s products sold to the Japanese market were using Japanese 1’s marketing channels. Moreover, through this means, China 3 has now successfully
entered into the major home appliances’ retailers and built up solid relationships with them in Japan.

Table 7.4: Summarizes strategic assets China 3 aimed for and results

<table>
<thead>
<tr>
<th>Strategic assets China 3 targeted</th>
<th>Strategic assets China 3 gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological related assets</td>
<td>Gained Japan 1’s whole R&amp;D resources in refrigerator sector</td>
</tr>
<tr>
<td></td>
<td>Gained large-sized refrigerator making technology and refrigeration technology</td>
</tr>
<tr>
<td>Marketing channels</td>
<td>Utilized Japan 1’s marketing channel to enter into mainstream retailers in Japan.</td>
</tr>
</tbody>
</table>

7.4.3 Underlying factors in the pattern of asset acquisition

In this event, China 3 gained high quality R&D resources and two advanced technologies in refrigerator products. It also successfully utilized Japanese 1’s marketing channel to sell its products in the Japanese market. Specifically, two dimensions of factors have been found which underlined China 3’s aim to target at Japanese 1 and successfully gain the assets it aimed for.

7.4.3.1 Identification

China 3 chose an appropriate target which was of high quality and within China 3’s ability to absorb. It showed that China 3 has a good ability to identify the external valuable assets. In particular, two factors have been found which underlined why China 3 decided to target Japanese 5.

A: Prior ties with the target

As early as 2002, China 3 and Japan 1 had collaboration experiences. In 2002, due to China 3’s weak brand awareness in Japan, it chose to cooperate with Japan 1 in order to
open the Japanese market. An external respondent (senior journalist in IT and home appliances sector) commented, ‘Japan 1 and China 3 had a happy cooperation experience in 2002.’ Respondent 2 (marketing manager) also confirmed that China 3 and Japanese 1 had deep cooperation. He further pointed out that ‘(in the last cooperation) China 3 fully relied on Japanese 1’s technology, and Japanese 1 utilized China 3’s marketing channels to enter into the Chinese market.’

Thus, when Japanese 1 intended to sell its refrigerator sector, it first approached China 3. According to Respondent 2 (marketing manager), through previous cooperation, China 3 had a close interaction with Japanese 1. It had accumulated many experiences and knowledge on how Japanese companies operate and how to handle the culture issues. Similarly, Respondent 1 (senior manager) observed, 

‘We are quite familiar with their way of doing business and we know how to communicate with them and how to do business with them. …Also we are aware of what Japanese 1 possessed which will be valuable to us.’

B: previous knowledge seeking experiences: foreign market knowledge

In this event, China 3 successfully targeted the right technology to open the European mainstream market. China 3’s ability to identify the right technology target is also attributed to its rich international knowledge-seeking experiences.

Respondents suggested that in Europe, China 3 had established manufacturing bases, and participated in local manufacturer organizations to get the latest information. According to Respondent 3 (manager in training centre), in 2001 China 3 acquired an Italian refrigerator manufacturing factory. It established a design centre in France, and the Netherlands. Now China 3 has established 6 branches in France, Italy, Spain, UK, Germany and Poland. It has two factories in Italy and Poland. China 3 not only owned home appliance manufacturing factories in Europe, but also established a strong network of obtaining local market information and participating in the local
manufacturing organizations. Specifically, Respondent 1 (senior manager) commented, ‘we had actively participated in international competitions. …
Through these we gained knowledge and experiences with regard to different international markets.’

Through these knowledge-seeking channels, China 3 identified the major bottleneck which inhibited it from entering into the mainstream market. Respondent 2 (marketing manager in refrigeration department) confirmed, ‘… we found that the European mainstream market was dominated by large-sized refrigerators, however, we only possessed the technology of manufacturing small sized refrigerators.’ An external respondent (senior journalist in IT and home appliances sector) also confirmed this point and further pointed out that ‘In order to enter into the mainstream European market, China 3 must hold this technology.’ Therefore, Japanese 1 which had the world’s most advanced air cooling refrigeration technology was the perfect target for China 3.

Thus, China 3’s prior ties with Japanese 1 enabled it to be aware of what Japanese 1 had and also how to work with Japanese 1. Also China 3’s rich international knowledge seeking experiences make it familiar with the European market so as to identify the specific technology it needed.
7.4.3.2 The acquisition effort made to acquire the strategic benefits

Already possessed requisite capabilities

Strenuous efforts were not required in order to acquire the targeted assets in this event. This is largely due to the fact that China 3 had already built up the requisite capabilities. According to Respondent 3 (assistant manager in training centre), in their first cooperation in 2002, China 3 only got a small amount of marketing channels, and had not got any advanced technology assets from Japan 1, but now, China 3 could get Firm 5’s whole R&D resources. Respondent 3 (assistant manager in training centre) explained, ‘In these years, we had made great improvement in our manufacturing technology. We now have world first class factories.’ Respondent 1 confirmed this and stressed that the easy and successful cooperation was due to China 3 possessing high value assets which Japan 1 desired, to exchange with Japan 1’s advanced R&D...
resources. Respondent 1 (senior manager) commented,

‘It was quite a smooth process. We had first class refrigerator manufacturing capability - that was what Japan 1 desired. And we both were familiar with each other. That’s the key.’

An external respondent (senior journalist in IT and home appliances sector) confirmed this view and further explained that Japan 1 was looking for companies to do OEM for them and China 3 had the first class manufacturing capabilities in terms of refrigerators, thus, to Japan 1, China 3 was its best choice.

<table>
<thead>
<tr>
<th>Summary of key event 3 of China 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>In this event, China 3 successfully acquired the assets it desired, i.e. R&amp;D department, technology patents and marketing channels. It identified an appropriate target to acquire the strategic benefits it aimed for. The prior tie with Japan 1 and its prior knowledge seeking experiences enabled China 3 to be familiar with foreign market conditions and identify the right assets. In terms of the acquisition effort, China 3 did not make great efforts due to its pre developed requisite capabilities, which help China 3 to acquire the assets smoothly.</td>
</tr>
</tbody>
</table>
Chapter 8

CASE 4--CHINA 4

8.1 Company background

China 4 was established in 1981 as a minority state-owned company. It was initially a tape cassette manufacturer. By 1985, it had developed into a telecom equipment manufacturer and started to produce telephones. In 1989, China 4 expanded its business to the colour TV sector and successfully launched its own brand big-screen colour TV in the domestic market. Its two core businesses, colour TV and mobile phone are all in leading positions in the domestic market. Now China 4 has become one of the world’s leading producers of flat panel TVs, DVD players, air conditioners, and GSM and CDMA mobile phones. It employs more than 50,000 people worldwide in over 80 operations, including 18 R&D centres, 20 manufacturing bases, and more than 40 sales offices around the world. The total global sales were 5.8 billion USD in 2009 (company website). Three international expansion activities (Key events 1, 2, & 3) motivated by strong strategic asset-seeking intents are selected as the key SAS events in this case study.

China 4 has undergone three stages in its internationalization path (See Table 8.1 for China 4’s international experience) (company document). In its first stage, from the early 90s to 1998, China 4 focused on being OEM and ODM for leading foreign companies. From 1998 to 2003, it entered into the second stage in which China 4 attempted to build sales channels for its own brand products in less developed countries. In this stage, China 4 acquired German 1 in September 2002. In this event, China 4 intended to acquire German 1’s distribution channel, production equipment, R&D resources, and many sub brands. This event is discussed as a key SAS event by China 4 in the ensuing data analysis section. Since 2004, China 4 entered into the third stage,
with the focus of opening advanced markets. In 2004, it established two joint ventures successively with two French companies (French 1 and French 2) and started to collaborate with French 1 in the colour TV industry and French 2 in the mobile phone business respectively (key events 2 and 3 of China 4 respectively). In these events, China 4 aimed for valuable assets such as technological assets, brand names, marketing channels, and human resources. However, both joint ventures suffered great losses in 2005. In order to rescue these two overseas businesses, China 4 wholly acquired these two joint ventures and restructured the businesses by only retaining OEM business.

Table 8.1: China 4’s international experience

<table>
<thead>
<tr>
<th>Year</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>Established</td>
</tr>
<tr>
<td>1999</td>
<td>Enter into Vietnam market by exportation</td>
</tr>
<tr>
<td>2002</td>
<td>Attempted to Enter into German market by Acquiring Germany 1 (SAS event 1)</td>
</tr>
<tr>
<td>2004</td>
<td>Majority Joint venture with French 1 (SAS event 2) Majority Joint venture with French 2 (SAS event 3)</td>
</tr>
<tr>
<td>2006</td>
<td>Restructure the JV businesses and transferred to wholly owned subsidiaries, only remain OEM</td>
</tr>
<tr>
<td>2008</td>
<td>Joint venture with Korean MNE</td>
</tr>
</tbody>
</table>

8.2 Key event 1: acquisition of German 1

8.2.1 Background

German 1, a colour TV manufacturer established in 1889, was one of the three national brands in Germany. With 650 employees, it was declared bankrupt in early 2002. At that time, China 4 was in its second stage of internationalization with the focus on building up its brand image mainly in emerging markets. It had been looking for opportunities in the European market. In 2002, the German government approached China 4 with the proposal of selling German 1 and confirmed that China 4 did not need
to pay off the debt. In the same year, China 4 spent 8.2 million Euros on taking over German 1’s trademarks, production lines, R&D centres, and marketing channels. Nonetheless, the acquisition failed, as China 4 shut down the acquired business soon after the acquisition.

### 8.2.2 Strategic benefits China 4 expected and results

The expected benefits from the acquisition were clearly explained by Respondent 1 (assistant of vice CEO of China 4) who observed,

‘… when we conducted the acquisition, we wanted to acquire German 1’s production equipment, R&D resources (including R&D personnel), channels, stocks, and its brands. We planned to use the brand reputation, its world-wide distribution channels, and its strong technology to open up European and other overseas markets.’

In addition, China 4 viewed the acquisition as a good opportunity to build up its brand image in the European market. The extract from Respondent 3 (Chief Secretary in publication department of China 4) illustrated this,

‘We believed that it was a good opportunity to let consumers in the European market get to know our company and to improve our brand image in advanced markets.’

However, with respect to what China 4 actually gained from this event, all respondents who commented on this issue indicated that this acquisition was generally a failure. International reputation seems to be the only benefit China 4 gained. Except for this, China 4 did not gain the other benefits it expected.

Specifically, with regard to reputation, an external respondent (senior journalist in IT
and home appliances sector) confirmed that many European media and newspapers had reported the news, which helped China 4 to establish brand awareness in the European market.

Similarly, Respondent 1 (assistant of vice CEO) observed,

‗If we want to have the same reputation though advertising, the advertising fee would cost even more……if we had not acquired German 1, French 1 (the French company who later on had partnership with China 4) would not approach us, and the acquisition wouldn’t happen’.

With regard to other benefits, Respondent 2 (former senior manager) commented that the brand assets of German 1 were out-dated and its technology assets were even behind those of China 4. The assets of German 1 were not valuable to it to open the European market. An external respondent (university scholar) noted that German 1 was in fact a bankrupt company, which had been transferred many times between different buyers. Specifically he pointed out,

‗The German TV market was saturated. Consumer would only buy high-technology products. But German consumers did not regard German 1 as a high technology producer. China 4 wanted to combine German 2’s brand name with its high-end plasma HDTV (high definition television) product in the German market, but it discovered that no consumer would buy these products.’

Thus, the acquisition did not bring in the assets China 4 expected except for reputation. It targeted completely wrong assets, which were out-dated and different from its expectation. This led to the close down of the acquired business one year after the acquisition. Table 8.1 below summarizes the results of this acquisition.
Table 8.2 Key event 1: the benefits China 4 expected and gained

<table>
<thead>
<tr>
<th>Strategic benefits China 4 targeted</th>
<th>Strategic benefits China 4 gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>Increased awareness in the European market of China 4 as a technology company</td>
</tr>
<tr>
<td>Brand assets</td>
<td>Out-dated brand image which couldn’t contribute to their own brand</td>
</tr>
<tr>
<td>Distribution channel to enter into the European high end market</td>
<td>Not applicable as the brand is not considered as a high-end product in Germany</td>
</tr>
<tr>
<td>Technological related assets</td>
<td>Out-dated technology even behind China 4’s own technology</td>
</tr>
</tbody>
</table>

8.2.3 Underlying factors in the pattern of assets acquisition

With reputation as the only benefit China 4 gained, this event can be regarded as a failure in terms of assets acquired. Staff from China 4 provided limited information about the results of the acquisition and the reasons for the failure. They insisted that ‘it was only a small trial’. However, respondents who have left the company and external respondents revealed more details (see below). China 4 showed a low absorptive capacity in the dimension of identification of the externally sourced assets.

8.2.3.1 Identification

As discussed earlier, China 4 had a poor understanding about the target. German 1 was the wrong target in terms of fulfilling China 4’s intent to enter into the high-end European market and acquire valuable assets. Specifically, the following two factors have been emphasized by respondents to contribute to China 4’s low ability to recognize the value of the assets in this event.
A: Lack of prior knowledge about target

An external respondent (investment banking analyst) noted that,

‘It (German 1) is quite an old brand in Germany, and perceived by consumers as a conservative, out-dated brand.’

However, according to Respondent 2 (former senior manager of China 4), China 4 didn’t know the position and image of German 1 in the German market until China 4 had acquired the company. He further illustrated,

‘We only knew it was a western MNE with 113 years history…We did not have further knowledge about German 1’s brand image, market share, and core competitive advantages. Also we did not have a good knowledge about the German home appliances market….we had not considered this much when we acquired German 1.’

B: Lack of specialized talents to identify the value of the assets

Several respondents noted that China 4 did not have managerial personnel familiar with the international market. Regarding the assets of German 2, Respondent 2 (former senior manager of China 4) commented that ‘if we had the specialized talents to assess the value of the German 1’s brand, we wouldn’t face these difficulties.’

The government analyst who had a close link with China 4 also confirmed,

‘China 4 didn’t have the professional international talents in the area of brand assessment, international marketing strategies, cross border culture management strategies. That’s what led to the failure of this acquisition.’
In the acquisition of German 1, China 4 acquired wrong and outdated assets, which were completely useless. The acquired business was shut down one year later. The only benefit China 4 gained was that the acquisition increased China 4’s brand awareness in the European market.

Poor ability to identify the target is the key reason that led to the failure. Lack of prior knowledge about the target and lack of specialized talents are the two main factors which influenced China 4’s ability to identify.
8.3 Key event 2: the joint venture and (subsequently) the acquisition of French 1 colour TV division.

8.3.1 Background

French 1, a state-owned consumer electronic appliances manufacturer, is a world leading MNE. Starting from 2002, it was keen to sell its loss-making colour TV division. It had been looking for and contacting a number of potential buyers in China including China 4. In July, 2003, French 1’s CEO suggested to China 4’s CEO that they should cooperate in the colour TV business. In January 2004, China 4 and French 1 signed the contract to establish a joint venture in which China 4 held 67% of the shares. In 2005, the JV caused significant loss for China 4. Before the joint venture, China 4 made a profit of 1 billion RMB, however, one year after China 4 acquired French 1’s colour TV sector, its total loss in that sector reached 2.6 billion RMB (company website). China 4 decided to restructure the joint venture. It bought the remaining 33% shares which formerly belonged to French 1 and made it a wholly owned subsidiary. However, this did not improve China 4’s financial situation.

8.3.2 Strategic benefits China 4 expected and results

Respondent 3 (Chief secretary) observed that the initial motivations for China 4 to acquire French 1’s colour TV sector were to obtain French 1’s brand names, the Cathode Ray Tube (CRT) technology, human resources, marketing channels and two manufacturing factories. The results of this event in terms of each asset China 4 targeted and gained are discussed in detail below.

Firstly, in this event, China 4 did not successfully gain the following assets it aimed for.

1. Brand name

French 1 has two brand names in the colour TV sector, one of which had originally belonged to RCA. China 4 highly regarded these two brand names. Respondent 4
(manager of colour TV sector) explained

‘RCA is the father of the TV business. We planned to use the RCA brand to enter into the US market and use the brand name of French 1 to enter into the European market.’

However, the quality of the brand assets China 4 acquired was questionable. China 4 always wanted to utilize French 1’s brand, however, French 1’s brand had lost competitiveness even in the domestic market. As commented by Respondent 2 (former senior manager), the brand names ‘had little contribution to build China 4’s brand in international markets’. The extract from an investment banking analyst illustrated this,

‘French 1 was already an out-dated and unpopular brand, with limited market influence. The use of French 1’s brand could not facilitate China 4 in terms of opening European and US markets.’

2. Technological related assets and capabilities

In terms of technological related assets, China 4 firstly aimed for French 1’s CRT technology, which, according to Respondent 5 (engineer in colour TV division), was regarded by China 4 as core technology for manufacturing colour TVs. As Respondent 5 suggested, China 4 then believed that if it could acquire CRT, China 4 would control the core technology in the colour TV sector. However, the CRT technology China 4 gained was soon out-dated and replaced by Liquid Crystal Display (LCD) technology. China 4 did not anticipate the major technology shift in the industry, and consequently suffered huge loss. China 4 targeted assets that initially appeared promising but turned out to be wrong, as the technology had been overtaken. The wrong targeted assets didn’t bring profit to the company, but led to huge loss of its business.

Respondent 2 (former senior manager) pointed out,

‘Now part of its (China 4’s colour TV) overseas factories have been closed down in order to reduce cost. CRT, the technology China 4 initially attached great importance to, becomes the burden of the company.’
Apart from the CRT technology, China 4 also gained French 1’s other technology patents in the colour TV sector. These patents proved to be indirectly useful to China 4 as explained below. Respondent 5 (engineer in colour TV division) noted that although these patents are not advanced, they are in the patents pool, which means China 4 can exchange these patents with other companies’ patents in the patent pool. With regard to this, Respondent 1 (Assistant of vice CEO) specifically pointed out,

‘We can exchange patents and get the patents we want from Sony, Samsung at relatively low prices. This is a main benefit.’

However, an external respondent (investment banking analyst) commented that the patents in the patent pool were not leading-edge technology, they were mainly traditional colour TV technology, which did not contribute much to China 4’s R&D capability.

Besides, China 4 expected to acquire R&D personnel of French 1 to increase its R&D capabilities. According to Respondent 3 (chief secretary), ‘French 1 has a high quality R&D team. If we could utilize them to do R&D and transform the capability into our own firm, it would enhance our competitiveness.’ However, all the respondents who commented on this issue indicated that China 4 abandoned the majority of R&D personnel from French 1 and failed to keep the key R&D talents. Respondent 3 (chief secretary) observed, ‘due to the subsequent huge loss in European business, we had to lower our cost, thus we axed more than half of the foreign R&D personnel and only retained R&D in product design. We still rely on our own employees to do the main R&D activities.’

Therefore in terms of technological related benefits, China 4 did not gain advanced technology and R&D talents. It gained technology patents which indirectly helped China 4 to get other less advanced patents.

3. Marketing related assets

China 4 intended to take advantage of French 1’s marketing channel in the European
and US markets. The external respondent (university scholar) commented that, ‘although French 1 is an out-dated and unpopular brand, it still has good marketing channels.’ However, the acquired valuable marketing channels coupled with managerial personnel were abandoned due to inadequate finance. The extract from Respondent 4 (assistant manager of TV colour sector) explained this,

‘We dramatically cut down the American sales team from more than 250 employees to 20 employees. These employees mainly served several big customers such as Wal-Mart, Best Buy.’

As the same respondent pointed out, the marketing activities for the European market were closed completely and China 4 only retained the OEM business. However, China 4 gained the following assets successfully.

4. Reputation

According to Respondent 8 (human resource manager), the acquisition dramatically increased China 4’s brand awareness worldwide; this in turn increased China 4’s own brand business in developing markets such as south east Asia, Russia, East Europe, middle east, Africa. Respondent 3 (chief secretary of China 4) confirmed,

‘The acquisition also helps our company to build up international influence. Many newspapers and magazines reported this event. Even the leader of our country and the leader of France met our CEO. Our CEO was awarded the ‘Person of the year 2004’ by the Chinese government.’

5. Manufacturing facilities

According to respondent 1 (assistant of vice CEO), the biggest reward from the acquisition was the two manufacturing facilities of French 1: one in Poland, the other in Mexico. The manufacturing capacity in Poland enables China 4 to bypass tariffs when entering into the European market: likewise, with the Mexico facility, China 4 can avoid tariffs when entering into the American market. These two factories have also been viewed as an important step in building up China 4’s global supply structure.

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5 This has also been observed by an external respondent and website news.
Respondent 1 (assistant of vice CEO) commented,

‘These two factories were very important to us. Although we haven’t reached a high level of efficiency of global supply chain management, we have taken one big step in this direction. Before the acquisition, we hadn’t entered into the European and American market, but now, we have two factories in these markets.’

6. **Other benefits gained : Employees’ mind-sets**

In acquiring French 1’s colour TV division, China 4’s employees’ mind-sets have been changed. In the words of Respondent 4 (manager of colour TV division), ‘the biggest change after the acquisition was in the aspect of employees’ mind-set.’ Respondents commented that they learned new product design concepts and their horizons had been broadened.

Specifically, Respondent 2 (former senior manager of China 4) noted that, working with French 1’s R&D team, employees of China 4 got to know the latest research concepts and improved its product design capabilities. He observed,

‘We used to be satisfied with our product design, but when we cooperated with French 1, we found our product design is poor compared with other company’s products.’

Similarly, Respondent 5 (staff in colour TV department) observed,

‘From my own experience, I had the strong feeling that over these years the style of our product design has been changed a lot since the cooperation’.

They also found the weaknesses of China 4 compared with western companies. As Respondent 1 (assistant of vice CEO) said:

‘We go abroad and we know how big the distance is between Chinese companies and the real world giants and what we should
work on’.

The acquisition enabled China 4 to realize its weaknesses especially in the management teams. With respect to this, Respondent 1 explained,

‘Before the acquisition, we thought the biggest distance between our company and western MNEs was in technology or the size of the company. But now, we are clearly aware that the biggest distance is in human resources especially the management team.’

To sum up, this event is generally a failed event. China 4 only gained the reputation and manufacturing facilities it originally expected, however, it did not gain valuable brand name, technology, marketing channels, R&D personnel successfully. The Table below summarizes the results of this event.
Table 8.3: Key event 2: assets China 4 aimed for and gained

<table>
<thead>
<tr>
<th>Strategic assets China 4 targeted</th>
<th>Strategic assets China 4 acquired</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand assets</td>
<td>Gained out-dated and unpopular brand with limited market influence which made little contribution to build China 4’s brand in the international market.</td>
</tr>
<tr>
<td>Technological related assets</td>
<td>Gained core technology patents in CRT, which was soon being replaced by LCD. The CRT technology contribution to enhance China 4’s technology is highly limited as it was soon out of date. Acquired French 1’s R&amp;D personnel, but only kept less than half of the employees because of the tremendously high labour cost. The innovation capability still mainly relies on China 4’s Chinese employees</td>
</tr>
<tr>
<td>Marketing channels</td>
<td>Acquired French 1’s marketing assets in Europe and America, but lost in the restructure.</td>
</tr>
<tr>
<td>Reputation</td>
<td>Increase the reputation due to the acquisition. Increase the selling in emerging markets.</td>
</tr>
<tr>
<td>Mind-set/outlook of the company and the people</td>
<td>The French 1’s R&amp;D team brings in advanced R&amp;D concepts, and wins China 4 products design awards internationally. Gained new concept. Realized the distance. Changed China 4 employees’ outlook, and the way they think and behave is more broad, open and international-oriented than before.</td>
</tr>
</tbody>
</table>

8.3.3 Underlying factors in the pattern of asset acquisition

In this event, China 4 selected the wrong target. The joint venture caused China 4 huge loss, and did not successfully gain the strategic benefits it expected. The following factors are identified to underlie the results of the event.
8.3.3.1 Identification

As shown in section 8.3.2, China 4 had poor ability to identify the value of French 1’s assets. Two of the major assets it targeted viz. brand names and technological assets, were not valuable to China 4. The valuable marketing channels and R&D personnel of French 1 had not been retained successfully. Five factors emerged to hamper China 4’s ability to recognize the value of the assets.

A: Lack of the ability to identify industry technology development trend

The key reason that China 4 targeted a wrong technology asset is because it failed to identify the technology trend. China 4 did not form a correct expectation about technology transfer.

Firstly, it had wrongly estimated when the technology transfer would take place.

As explained by Respondent 1 (assistant of vice CEO of China 4), CRT was then the advanced technology of manufacturing colour TVs. He observed,

‘We knew that CRT would be overtaken by a more advanced technology in the future.’

However, China 4 initially estimated that the transfer from CRT to more advanced technology would take 10 years; on the contrary, the technology transfer only took several months. In 2004, LCD had become the new and leading technology which started to dominate the colour TV industry. An external respondent (financial reporter) commented,

‘In the January of 2004, China 4 signed the contract with Firm 3. At the end of the year, the sales of LCD products in the European market had exceeded CRT products.’

However, China 4 did not realize the rapid technology shift until 2005. Respondent 2 (former senior manager) explained that when LCD TV started to come onto the market, China 4 still held CRT technology firmly and presumably thought that this technology
could bring opportunities for China 4 to make money. Only when other players in the industry took up the business opportunities of LCD TV and started to manufacture in large scale, did China 4 start to realize the situation. They rushed into the LCD sector by paying high license fees and taking part in low value added activities. When China 4 finally understood the market and became clear about the situation, it started to take actions and cut cost, but it was already too late. The extract from Respondent 4 (manager of colour TV sector) illustrated this,

‘The technology shift was faster than we expected. When we realized and wanted to make changes, it was very difficult as we had invested a lot in CRT technology. The business system we acquired from French 1 was only suitable for CRT.’

Respondent 5 (engineer in colour TV sector) also commented:

‘The technology changed so fast, we didn’t have time to integrate and configure our assets and resources… if the technology-update had happened one year later, I believe our company would be in a different situation.’

On the contrary, before signing the contract, French 1 was already aware of the technology shifting. The industry expert (investment banking analyst) commented that the colour TV sector of French 1 was ‘the burden that the French Company got rid of and passed to the Chinese company’

**Secondly, China 4 did not form a correct expectation about which technology would overtake CRT.** According to Respondent 5 (engineer of China 4’s colour TV division), French 1 also held digital light processing technology (DLP) which was a more advanced technology than CRT. China 4 anticipated that in the future DLP technology would overtake CRT, and due to the connection between China 4 and French 1 on CRT technology, it would be easy for China 4 to gain DLP technology. However, beyond its expectation, the CRT technology was replaced by LCD technology which is even more advanced than DLP. With respect to this, Respondent 4
(manager of China 4’s colour TV sector) explained more,

‘Apart from CRT technology, French 1 also possessed a high quality technology in colour TV, i.e. DLP. At that time, our primary concern was whether Programmed Data Processor (PDP) technology would overtake DLP technology. Through analysis we believed that DLP would be more powerful than PDP. Thus, it would be an advantage for us to get DLP technology from French 1 since we were cooperating with them. However, we didn’t anticipate it would be LCD technology that would develop so fast and become the dominate player.’

The main reason that China 4 could not identify the technology shift is due to its lack of core technology and lack of understanding about the new technology. Respondent 5 (engineer) noted that LCD is a high technology, the core technology is only used in Japanese leading enterprises. He further explained, ‘the fundamental reason is that our technology capability is still weak now, we do not possess any core technology.’

Respondent 3 (Chief Secretary) similarly confirmed,

‘We didn’t have related technology background and prior experiences. The most important reason was because we had not touched LCD technology before. Our understanding about LCD was very limited.’

**B: Lack of knowledge about foreign market: regulations and culture**

China 4 lacked basic knowledge about host market regulations and culture. This hinders China 4 from forming a correct expectation about the targeted assets.

According to Respondent 6, when China 4 reduced the number of acquired employees from French 1, so as to rescue the loss-making JV, China 4 encountered great difficulties. China 4 did not know the cost of reducing employee numbers could be so high in Europe. Respondent 1 (assistant of vice CEO) specifically pointed out, due to
unfamiliarity with local regulations, it took China 4 one year to complete the redundancy package. Respondent 2 (former senior manager) noted that the leader asked China 4’s European market leader to reduce the number of employees on the first day of 2005, however, after 9-10 months, the number had not been reduced. Respondent 1 (assistant of vice CEO) also commented that

‘It was very difficult not just in terms of capital but also the complicated regulations and procedures…the labour union in Europe is mature and well developed.’

In addition, China 4 was unfamiliar with the culture differences between China and France. Respondent 2 (former senior manager) gave the following example to explain China 4’s unawareness about the culture differences,

‘When our leader flew to France to negotiate an urgent problem over weekends, he found that no one worked on weekends. The employees in French 1 even didn’t answer the phones. Our CEO was shocked as it is usual for employees in China 4 to work on weekends.’

With regard to this, an external expert (university scholar) commented, ‘These culture differences should have been learned before.’ Similarly, Respondent 1 (assistant of vice CEO) observed,

‘If we had known this beforehand, we probably would consider the assets differently and do the acquisition differently.’

C: Lack of talents with international operation experiences

Respondent 4 (manager of colour TV sector) pointed out that China 4 did not possess any staff with international operational expertise. This resulted in China 4 having mistaken expectations and making incorrect decisions with regard to acquiring French 1’s assets. He observed,

‘…we had very few people in our top management teams who were familiar with overseas markets. We were unclear how they
work, how they operate. We remained unclear about the concept of the foreign company. We also didn’t know the social culture regulations and business context. This caused difficulties for us to recognize how much we could benefit from the target, i.e. the real value of the target.’

Respondent 5 (engineer in China 4’s colour TV sector) also complained that ‘it quite bothered us as the communications between us and foreign staff were not good.’ An industry expert (financial reporter) confirmed this and pointed out that China 4’s managers did not even have appropriate English language skills let alone be able to communicate and understand foreign enterprises well.

D: Leader’s strong incentive to change: over ambitious

China 4’s leader showed a strong incentive to acquire the assets from French 1. The leader viewed this event as a one and only chance to fulfil his vision.

In 2003, China 4’s leader proposed and implemented a ‘dragon and tiger’ plan. Dragon and tiger referred to China 4’s two core businesses, i.e. colour TV and mobile phone respectively. According to this plan, China 4 was ambitious and planning to enter into the world top 5 players in colour TV and mobile phone sectors respectively within 3 to 5 years. Driven by this strong ambition, the leader of China 4 viewed this as a good opportunity to fulfil his vision. The industry expert (government official) commented,

‘China 4 had already got the strong ambition and intent to bring their colour TV and mobile phone business to international markets before the opportunity arose that French 1 was looking for buyers in the Chinese market. It was not difficult to understand why China 4 showed great interest and passion in the M&A with French 1 and French 2. To China 4, this was a good opportunity to realize its strategic intent; they were desperate to have success and

* Company internal document
did not want to miss the opportunity.’

Furthermore, Respondent 4 (assistant manager of colour TV division) also suggested that the top leader of China 4 viewed this as the only chance available to fulfil the ambition of being the world leading MNE. If China 4 did not take this chance, in the future, it would be more difficult for them to have the opportunity to become the world No.1 Company in the industry. Specifically, he explained,

‘Our leader believed that it was the only chance for us. French 1 also contacted some firms in Japan and South Korea, if we didn’t take the deal, French 1 would probably sell it to the Japanese and South Koreans…If we didn’t grab it someone else would take the chance.’

Moreover, the leader showed strong determination to change even though he faced opposition from inside the company. According to Respondent 2 (former senior manager), before China 4 decided to take the deal, several founding members had suggested that it would be risky to take over the deal. However, the company leader had a strong determination to undertake this event. Specifically, Respondent 5 (engineer) explained,

‘Some people suggest that French 1 is a declining brand. RCA (French 1’s colour TV brand) was originally from GE. GE sold it to French 1 and now French 1 could not rescue it from bankruptcy, therefore sold it to China 4. Even GE could not rescue it, could we do better than them? But our leader was very determined to take the deal.’

This has also been echoed by an external respondent (university scholar) who made similar comments about the quality of RCA, also he further pointed out that ‘in this event, the leader of China 4 was careless and was eager for instant success’.
Thus, the leader’s strong incentive to change drove China 4 to target French 1 without deep evaluation about the quality of the assets.

In summary, in this event, China 4’s poor ability to identify the technology trend, lack of knowledge about foreign markets, lack of talents with international operation experiences and the leader’s over ambition caused China 4 to target inappropriate assets; in the event, it failed to acquire the assets it expected.

Figure 8.2 : Prior knowledge base and identification ability

CHINA 4’S PRIOR KNOWLEDGE BASE

Low technological capabilities
Failed to identify technology trend

Lack of specialized talents with international operation experiences

Lack of knowledge about foreign market regulation and culture

Leader’s strong incentive to change

Poor identification ability
8.3.3.2 The acquisition effort

In order to acquire the expected benefits, China 4 employed a consulting company to write a report. However, all the respondents who commented on this issue confirmed that China 4 still did not make enough effort. They indicated that China 4 did not consider or analyse carefully about the difficulties it would encounter. For example, Respondent 3 (chief secretary) observed,

‘We did not make much preparation. But now, when we look back, we realize that the preparation before the cross-border M&A is very important, one needs to do careful and thorough research and analysis, need to evaluate the possible risks, don’t rush into the business or be too desperate to be successful.’

The following factor has been found as the key force which leads to China 4’s few efforts in acquisition.

Prior successful experiences led to China 4’s overconfidence about its own capabilities

China 4 was quite confident about its own capabilities and was optimistic about the international challenges it might face. According to an external respondent (financial journalist), China 4 had acquisition experiences before, mostly in the domestic market, and targeted enterprises that were smaller than China 4. The good performance of China 4 in the domestic market makes it feel very confident about its capabilities. When China 4 went abroad, it tended to believe that with its excellent performance in the domestic market and its rich and good M&A experiences in the domestic market, it could also perform well by introducing similar successful domestic business modes to overseas markets. As commented by Respondent 2 (former senior manager),

‘When we started to cooperate with French 1, we believed that we could succeed. We thought that, based on our many years of good performance in the domestic market, we could transfer our good
experiences to international business management and overcome difficulties and risks we might encounter.’

An external respondent (government official) confirmed this view and pointed out that the good performance of colour TV and mobile sectors in the Chinese market made China 4 believe that ‘it’s not a big deal to acquire and merge with a European company given its rich experience and solid foundation in the domestic market.’

However, when China 4 expanded into European and North American markets, it found that the ‘good models’ and ‘successful experiences’ did not work as well as in the domestic market. The failure of this event was out of China 4’s expectation, Respondent 1 (assistant of vice CEO of China 4) explained,

‘Our company has been running for more than 10 years. We have been making profits all the time, but all of a sudden we made a loss.’

Respondent 4 confirmed that until China 4 started to run the joint venture, it found that the difficulties and challenges were far more than China 4 had expected. He observed,

‘At that time, we thought that we could use previous successful experiences to deal with any potential difficulties we would encounter… We had been a bit optimistic….Until in the November of 2004, we found that there were many problems. We lost control of the joint venture.’

With reference to this, the external respondent (government official) explained,

‘Those companies that China 4 formerly acquired in the domestic market were small-sized companies. And the most important thing is they were all Chinese companies. China 4 is very familiar with the Chinese business environment and culture. However, when it was acquiring a western MNE, the situation was totally different.’
8.3.3.3 New issues relating to the ability to retain the acquired assets

In this event, China 4 initially acquired two valuable assets which were marketing channels coupled with managerial personnel, and R&D personnel of French 1’s colour TV division. China 4 intended to retain and develop these assets so as to take advantage of these assets. However, as shown in section 8.3.2, China 4 abandoned the main marketing channels acquired from French 1 and reduced the majority of R&D personnel. This indicated that China 4 encountered the issue of retaining the valuable assets it had acquired in this event. Specifically, the following factors emerged to discourage China 4 from retaining the above mentioned assets.

A: Financial constraints

One direct reason that led China 4 to abandon these assets is China 4’s inadequate financial status after the joint venture.

In reference to marketing channels and managerial personnel along with the channels, Respondent 4 (assistant manager of China 4’s colour TV sector) pointed out that China 4 initially acquired French 1’s colour TV’s sales team, around 400-people, to manage the European market. However, since the European business suffered huge loss, China 4 terminated the sales operation in the European market and sold off assets and stocks of the European business. It cut the sales team to 20 employees, and closed all the
marketing activities except for OEM business. Respondent 1 (assistant of vice CEO of china 4) confirmed this and commented that,

‘In places where the cost is high, we firstly retreated from the market and used a cheaper way to do business, i.e. OEM…’

By OEM, China 4 did not need to nurture any marketing channels. China 4 lost marketing channels and managerial personnel. The external respondent (analyst of investment banking) further commented,

‘It closed all the loss making business in Europe so as to offset the huge loss… China 4 almost went back to the status before it acquired French 1’s assets.’

With respect to R&D personnel, as discussed earlier, China 4 initially acquired French 1’s R&D personnel in the colour TV sector. However, one detrimental issue coupled with bringing in international R&D from French 1 was that the cost of these staff was very high. As commented by Respondent 1 (assistant of vice CEO of China 4),

‘The average cost for a French engineer is ten to fifteen times that of domestic staff. It was unaffordable for us to take in all the staff.’

According to Respondent 5 (engineer), China 4 initially acquired around 300 R&D personnel from French 1, however it cut half of French 1’s R&D personnel in 2005. Subsequently, China 4 further simplified the R&D function in Europe and only retained personnel for product design.7 Respondent 3 (chief secretary) confirmed,

‘After the restructure, we still relied on our own R&D personnel in Shenzhen China to do the main R&D activities.’

Thus, due to the financial constraints, China 4 held the assets it expected but then abandoned them. China 4 could not afford to retain these assets, let alone in the later

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7 Unfortunately, the exact number was not directly given by the respondent. However, the respondent explained that the whole R&D personnel in China 4’s multimedia sector was around 500 people including more than 400 personnel in Shenzhen R&D. The European R&D centre acquired from French 1, and two other overseas R&D centres together accounted for fewer than 100 personnel.
stage to assimilate and employ these assets successfully.

**B: Unable to maintain relationship with channels**

Financial constraint is not the only reason which led to China 4 losing the marketing channels and R&D personnel. An external respondent pointed out that the marketing channel is a very delicate and complex asset. The nurturing of marketing channels required the company and the channels to have close and long-term interaction. To maintain the marketing channel places a high requirement on the company. He further illustrated,

‘Even if China 4 had sufficient capital to retain the marketing channel temporarily, whether it can maintain the relationship with the channels would still be quite problematic….it is simply because China 4 is not competitive.’

This is confirmed by Respondent 2 (former senior manager), ‘China 4’s products did not have unique selling points. It is difficult to attract and maintain a good relationship with channels in international markets.’

**C: No thorough plan beforehand**

The other factor which caused China 4 to lose the above mentioned assets is the poor effort it made when acquiring the assets. The poor preparation worsened the fact that they had not fully understood the potential difficulties of retaining these assets and led to the huge loss. An external respondent (investment banking analyst) observed,

‘China 4 did not develop a thorough acquisition plan, that’s the problem. It didn’t analyse the possible challenges and failed to consider solutions beforehand, which led to the chaos later.’

In summary, the above-mentioned factors led China 4 to abandon marketing channels and the majority of R&D personnel it acquired from French 1.
8.4 Key event 3: The joint venture and (subsequently) the acquisition of French 2 mobile phone division.

8.4.1 Background

French 2 is a leading MNE in the telecom communication infrastructure industry. Since its mobile phone business did not perform well, it was keen to sell its mobile phone sector. French 2 contacted several potential buyers (personal interview). In July 2004, China 4 and French 2 agreed to establish a joint venture in which China 4 owned 55% of the shares. By this means, French 2 transferred its mobile phone business to China 4. However, only 8 months after the establishment of the new joint venture, the

Summary of key event 2 of China 4

This event was a failure. China 4 acquired a wrong technology, i.e. CRT technology which did not strengthen China 4’s technology capabilities, moreover, led to huge loss of China 4’s colour TV business. Also the brand assets were out-dated which could not increase China 4’s market influence. The R&D personnel and marketing channels could be useful, but China 4 failed to maintain these assets. In this process, China 4 gained brand awareness in the European market, employees’ knowledge base were increased.

China 4 possessed a poor ability to identify the core value of the target. It made little effort in the acquisition process. It encountered severe problems of maintaining the acquired useful marketing channel and R&D personnel. Key influential factors underlying each dimension emerged.
JV was making a huge loss. The total loss in the mobile phone sector was 1.6 billion RMB. The new joint venture faced bankruptcy. In order to rescue the business, China 4 restructured the JV by acquiring the remaining shares owned by French 2 and transferred them into a wholly owned subsidiary with the main business of being OEM for French 2. This is a failed event, China 4 did not gain the benefits it originally expected. After the acquisition, China 4 became the biggest mobile phone OEM factory for French 2 in the world.

8.4.2 Strategic benefits China 4 expected and results

In this event, China 4 expected to gain the following assets from French 2: 2G and 2.5G technology patents, R&D personnel, brand assets, distribution channels and management team.

Specifically, in terms of technology related assets, Respondent 6 (assistant manager in telecom division) commented that R&D capability is mostly what China 4 expected to get. He explained,

‘French 2 does not have a manufacturing factory. Its R&D resource is the core competitive advantage it has. We regarded highly its R&D resources, especially its R&D personnel. We wanted to utilize its R&D personnel to increase our R&D capabilities.’

China 4 also intended to utilize French 2’s brand name and distribution channel to enter into advanced markets. With respect to this, Respondent 1 (assistant of vice CEO of China 4) explained,

‘French 2 has many customers around the world, the marketing distribution channels and the brand name can help our own-branded product to enter into advanced markets.’
Furthermore, China 4 expected to acquire French 2’s management team. Respondent 7 (assistant manager of telecom division) observed that French 2’s managerial talents would help China 4 to manage the European business, ‘it would be a good opportunity for us to learn from their way of management.’

However, with respect to the results of this event, respondents commented that it was a failed M&A, ‘a total failure’, ‘disaster’. In this event, China 4 made a huge loss and gained few benefits.

1. **Expected benefits gained**

   With respect to technology related assets, China 4 gained 2.0G and 2.5G technology patents, rather than 3G technology, which was the advanced one. In terms of R&D personnel, Respondent 1 (assistant of vice CEO of China 4) noted that China 4 had to give back the whole R&D sector including R&D personnel to French 2 due to the unaffordable high maintenance cost later on.

   In reference to marketing channels and brand assets of French 2, China 4 lacked reputation and acceptance among French 2’s customers. According to Respondent 6 (assistant manager of telecom division) the customers only accept products that are under French 2’s brand name, given that French 2’s mobile phone is manufactured by China 4. China 4 failed to utilize French 2’s marketing channel and brand name to sell China 4’s own products.

   In terms of management team, Respondent 7 (human resource manager in telecom division) pointed out that China 4 originally acquired French 2’s managerial personnel in the mobile phone sector, however, during the restructure of the JV, it only kept less than one third of them.

2. **Other benefits gained**
When asked about what benefits China 4 gained, respondents claimed that through the acquisition, China 4 made improvement in its production technology and process management. In the words of Respondent 1 (assistant of vice CEO),

‘By doing OEM for French 2, our manufacturing technology has been largely improved, e.g. in the aspect of manufacture quality control and process flows.’

He explained that China 4 used to have a bad reputation in the mobile phone sector even in the domestic market. Its mobile phone repair rate was as high as 20%. French 2 sent experts to help China 4 in the area of quality control and manufacturing process flows. Through their help, the repair rate under the brand name of French 2 has dropped to less than 1%. The repair rate of mobile phones under China 4’s own brand has also dropped dramatically to 4%. After the improvement in manufacturing technology and manufacturing management systems, China 4 now is able to produce a high-quality mobile phone. Respondent 7 further illustrated,

‘We had several French experts in manufacturing quality control and management areas. They used to work in French 2’s Shanghai branch, now they joined China 4. It was very helpful. Foreign experts changed the conditions of the factory. Because of them, the factory has become a world leading mobile phone manufacturing factory.’

Thus, this event was a failure. China 4 did not gain the assets it expected. It only gained benefits in terms of production technology which was not the key benefit China 4 initially targeted. The table below summarizes the results of this event.
Table 8.4: Key event 3 summarizes what they gained

<table>
<thead>
<tr>
<th>Strategic assets they wanted</th>
<th>Strategic benefits they gained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand name</td>
<td>Acquired French 2’s brand name but this did not help China 4 to build up its own brand name. China 4 became the biggest OEM for French 2. All the mobile phones China 4 produced for the international market were under French 2’s brand.</td>
</tr>
<tr>
<td>Technology related assets</td>
<td>Gained less advanced technology: 2.0G and 2.5G technology which did not strengthen China 4’s technology capability. (the advanced and most promising technology is 3.0G) Initially gained R&amp;D talents but abandoned the whole R&amp;D sector later on. The contribution of the R&amp;D resources to the company’s R&amp;D capability is not apparent.</td>
</tr>
<tr>
<td>Management talents</td>
<td>Gained managerial talents but abandoned two thirds of them</td>
</tr>
<tr>
<td>Distribution channel</td>
<td>French 2 got many consumers which helps China 4 to sell its products under the brand of French 2. The distribution channel did not facilitate China 4’s own brand products to enter into the international market, which is what China 4 aimed for.</td>
</tr>
<tr>
<td>Manufacturing capabilities</td>
<td>Production technology and manufacture management has been highly improved</td>
</tr>
</tbody>
</table>

8.4.3 Underlying factors in the pattern of asset acquisition

In this event, China 4 targeted out-dated technology, abandoned the acquired whole R&D sector including talents and cut the management team. Also the brand name and distribution channels of French 2 did not help China 4 to build up its own brand. China 4 only gained improvement in production technology. The ensuing dimensions have emerged which help our understanding about the underlying factors of this result. Since
this event happened just 6 months after Key event 2, it shares similar issues with that event.

8.4.3.1 Identification

China 4 showed a poor ability in identifying the value of French 2’s mobile phone sector. The following factors have been found to play a critical role in influencing China 4’s ability to identify the value of French 2’s mobile phone sector.

A: Did not possess core technology to foresee the importance of new technology

In this event, China 4 only obtained 2G and 2.5G technology patents. An external respondent (investment banking analyst) observed that the real major chance for mobile phone growth is in the 3G area, while China 4 failed to acquire the 3G technology patents. Respondent 6 explained that China 4 knew that 3G technology was the advanced technology and they had negotiated with French 2 to gain 3G technology, however French 2 did not agree to offer 3G technology. He observed,

‘We had been negotiating with French 2 to get its 3G technology, but they would only offer us 2G and 2.5G technology. It is understandable that as foreign MNEs, they would not be willing to transfer advanced technology to a Chinese company like us.’

With respect to this, the external respondent (university scholar) commented,

‘It was not worth the risk of acquiring French 2 to only gain 2G or 2.5G technology patents. The technology was behind. It would not strengthen China 4’s competitiveness.’

Respondent 2 (former senior manager) added,

‘French 2 was then keen to sell its mobile phone sector as soon as possible, China 4 should have taken the chance and insisted on acquiring 3G technology.’
An external respondent (investment banking analyst) pointed out that the real reason is because China 4 did not possess core technology, thus could not foresee the importance of 3G technology for its future development. He illustrated,

‘China 4 don’t even have their own technology in 2G and 2.5G… But the real expansion of the mobile phone sector is 3G technology. It was not aware that if it failed to grab 3G technology, it would be fading away soon.’

B: Lack of knowledge about foreign market: culture and regulations

In this event, China 4 again lacked understanding about the host country market conditions. It did not know the basic regulations of the host country, which even more hampered it from forming correct expectations about the value of the external assets.

The R&D talents in French 2 were what China 4 valued highly in this event. However, China 4 faced an even worse plight than it did in event 3. When China 4 acquired the assets, it found that the huge cost of human resources was beyond China 4’s ability to afford. When China 4 attempted to cut down the expense of foreign employees, it found that there were so many rules and regulations in Europe with regard to reducing the number of employees. It didn’t know that it needed to gain approval from the labour union before reducing employees. The external respondent (investment banking analyst) commented, ‘They knew nothing about this beforehand.’

Respondent 8 (human resource manager) stated,

‘It was a very bitter experience. If we had known these things earlier, we probably would have done things differently. We feel that it’s very difficult for Chinese enterprises to get to know foreign regulations and rules of playing.’

C: Leader’s incentive to change

Apart from the above factors, just like the acquisition of French 1, the leader’s strong incentive to change also stimulated China 4 to select French 2 as the target to fulfil its
ambition. Respondent 1 (assistant of vice CEO) noted that at the beginning, French 2 wanted to sell its mobile phone sector and had approached several Taiwanese enterprises. However, these enterprises dared not take the deal. The external expert (governmental analyst) observed,

‘To acquire a French company is not an easy job, especially in the case of French 2. The human resources and marketing channels are difficult to manage.’

However, China 4 was very keen to accept the deal. Respondent 6 (assistant manager) explained,

‘Likewise, the top leader’s determination to take the action also encouraged us to take this deal (the M&A of French 2). At that time, we believed that internationalization is a must, we as the pioneer for other Chinese firms have to take the risks.’

Respondent 2 (former senior manager who had left the company) further pointed out that, ‘the decision making in this event was purely by top leader’s emotion. He is too rushed and desperate for the firm to become an internationalized MNE.’

**Figure 8.4 : Prior knowledge base and identification ability**

![Diagram of CHINA 4’S PRIOR KNOWLEDGE BASE]

- No core technology
- Failed to identify technology trend
- Lack of knowledge about foreign market regulation and culture
- Leader’s strong incentive to change

**Poor identification ability**
8.4.3.2 Effort made in acquisition

Even less efforts were made in this event than in key event 2. In this event, China 4 simply designed the acquisition scheme by itself, without any external professional companies involved. Although it saved the consulting fees, in the fourth quarter of 2004, China 4 made a huge loss of 30 million euros, which far exceeded the money it saved.

Lack of effort is critical to the failure of key event 3. In the words of Respondent 2 (former senior manager), ‘The most deadly problem which caused the failure of the event is the poor efforts made during the acquisition process.’

Respondent 6 (assistant manager of telecom division) confirmed this and observed,

‘We did the acquisition design ourselves without inviting any consulting companies. When we look back, it was a failure. We failed to anticipate the potential problems and difficulties we might encounter during the acquisition… We saved small amounts of money at the expense of a big loss. It was a lesson for us’

The following two reasons have been found which hampered the firm’s acquisition ability.

A: Over confidence about their own capabilities

Over confidence emerged as a major reason which caused China 4 to make little efforts. Respondent 7 (human resource manager) noted that China 4 just established a joint venture with French 1’s colour TV sector, it still considered the event as a successful deal. According to him, the temporary success of the acquisition of French 1 made China 4 very confident about its own capabilities in handling international M&A events. Compared with French 1, the top management teams considered French 2 to be an easy target. With regard to this, Respondent 1 (assistant of vice CEO) gave the following explanation,
‘At that time, our consideration was that French 2’s Mobile Phone Company had fewer than 1000 people, had only R&D and a marketing system, and no factory. We thought it would be an easy job to establish JV with French 2, therefore, our top management team of the Telecom business sector decided to design the acquisition plan by themselves. Besides, this can save several million euros of consulting fees by not using consulting companies.’

B: Lack of resource commitment:

China 4 conducted two M&As within 6 months. Respondent 1 (assistant of vice CEO) commented that when China 4 established JV with French 1, its main attention was paid to rescue the JV’s North American business which originally belonged to French 1. The respondent explained,

‘Once we started the joint venture with French 1, we spent most of the resources on rescuing its North American business. When China 4 was going to establish JV with French 2, the company leader and senior management teams did not pay enough attention.’

With respect to this, Respondent 3 (chief secretary) pointed out that China 4 did not have enough resources and energy to devote to a thorough plan and research for this event. Respondent 7 (human resource manager) confirmed,

‘we have limited human resources. It is indeed out of our ability to manage two international M&As in a row.’

Specifically, Respondent 6 (assistant manager of telecom department) explained,

‘We don’t have enough resources to devote to two projects, not just in terms of financial aspects, but also in terms of management resources. Especially when our top leader’s attention has largely been put to JV with French 1, objectively, we don’t have enough
managerial teams in charge of this, this was also a reason that we did not make enough preparation.’

**Figure 8.5: summary of underlying factors for efforts made in acquisition process**

8.4.3.3 New issues relating to the ability to retain the acquired assets

In this event, China 4 faced the same problem of retaining the acquired assets as in key event 2. It initially acquired two valuable assets, i.e. R&D personnel and management teams. As discussed earlier, China 4 returned the whole R&D department (including R&D personnel, equipment and technology patents) back to French 2. Also it abandoned two thirds of the managers acquired from French 2. Two reasons can be identified,

1: Financial constraints:

French 2’s R&D resources have been considered as the core value of this acquisition. China 4 was supposed to utilize French 2’s technology capability and increase their own technology capabilities. However, according to Respondent 6 (assistant manager of telecom division),

‘When we acquired the assets, we found that based on the profit we made we could not afford the operation of the R&D resources.’

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The administration cost of China 4’s mobile phone sector jumped from 146 million HK dollars to 443 million HK dollars after the acquisition. In order to acquire every one employee from French 2, China 4 would have to pay more than 520 thousand HK dollars. Due to the loss of the new joint venture, China 4 did not have enough capital to support the high cost of foreign employees. This was beyond China 4’s ability to afford. According to the respondent,

‘The biggest cost in the newly acquired wholly owned subsidiary was the R&D department and the European market centre. In this department, although there were only around 360 people, it accounted for the cost of 10000 employees in China 4.’

The external respondent commented that ‘China 4 was in a dilemma, on one hand, the cost of maintaining the employees was too expensive; on the other hand, if it wanted to reduce employee numbers, each employee acquired from French 2 would cost 120 thousand Euros.’

2: Weak capability in terms of handling culture conflict

With reference to the management team, China 4 lost two thirds of the managers. Respondent 8 (human resource manager) explained,

‘By the end of 2004, of the senior managers originally from French 2, almost all left China 4. Around March 2005, the first line managers also left.’

The culture conflict is the main factor which caused China 4 to lose the majority of management team members. It was difficult to maintain these managerial talents. Our culture is different from theirs, our management styles were different. They did not agree with our management style. Respondent 8 (human resource manager) confirmed,

‘They (the managers from French 2) were not satisfied with the way we operated. Also they were not happy about our paying systems and stimulation measures.’
An external respondent (investment banking analyst) pointed out that, ‘China 4 is in a weak position, how to let employees from French 2 compile China 4’s culture and management style is very difficult.’

3: Poor effort made in acquisition

Besides, the poor scheme developed by China 4 did not anticipate the difficulties of integrating human resources and did not develop any measures beforehand.

The external respondent (government official analyst) commented that,

‘If they can make thorough preparations by inviting professional experts to make the plan, these difficulties would be solved.’

Respondent 6 (assistant manager) also indicated that the top leader of the company greatly regretted not hiring professional companies to make the plan. Similarly Respondent 1 (assistant of vice CEO) observed, ‘when establishing a joint venture with French 2, we did not hire professional consulting companies to design the scheme. Otherwise we would not have faced so many unexpected challenges.’

Thus, China 4 aimed for the R&D resources of French 2, however, it returned the R&D department to French 2. China 4 failed to retain key talents acquired from French 2.
Summary of key event 3 of China 4

This event was a total disaster. Similar to key event 2, the joint venture suffered huge losses and was restructured. China 4 acquired French 2’s outdated technology, R&D resources and managers, among which R&D resources and managers could be valuable but they were beyond China 4’s ability to afford. China 4 returned the whole R&D staff back to French 2 and lost two thirds of managerial talents. In this event, what China 4 gained was mainly improvement in manufacturing capability.

China 4 possessed a low ability to identify the appropriate target. Also it was observed making little effort in acquisition. It encountered severe problems in maintaining R&D and managerial talents. Key antecedents underlying each dimension have been observed.
Chapter 9

CROSS CASE ANALYSIS AND FINDINGS

9.1 Introduction

Focusing on processes prior to the ‘final’ assimilation of the acquired knowledge or capability, our research considers the ‘identification’ and ‘acquisition’ dimensions of absorptive capacity. In particular we consider (a) the effectiveness of the case firms’ ‘identification’ and ‘acquisition efforts’ (i.e. whether they achieved intended outcomes) and (b) the factors that underpin the outcomes.

In the previous four short chapters, we have presented the key results of each case company through within-case analysis. Key factors that are germane to the research question of this study, i.e. how firms’ absorptive capacity influences the outcome of their SAS events, were explored. Patterns were identified from each individual case. In this chapter, we will further develop the findings of the study through cross case analysis. Cross case analysis is an effective instrument for analysing multiple case study data (Graebner, 2004). Through comparing individual cases, commonalities and differences can be identified. Relationships among factors and patterns emerging from data can be consolidated. Based on cross case analysis, we can then draw conclusions from the data we collected (Ghauri, 2004).

Accordingly, this chapter proceeds as follows. In the first section, the cross case analysis with respect to the effectiveness of the strategic asset-seeking (SAS) events in the process before formal assimilation is conducted. Then, the commonalities and differences of case companies’ observed abilities and underlying factors are presented based on key data from within case analysis. Main findings drawn from cross case analysis is clarified. This will pave a way for the discussion in the next chapter.
9.2 The effectiveness of case companies’ SAS events in the process before formal assimilation

A natural outcome of the data is the effectiveness of the SAS events conducted by case companies. Table 9.2 summarizes the outcome of case companies’ SAS events in terms of strategic benefits gained. Through across-case comparison of these four case companies, we can get the following two findings:

**Finding 1:**

Case companies get limited benefits in terms of substantive assets. The cross case analysis shows that these four case companies intended to gain a wide range of assets, such as technological assets, human resources, marketing channels, brand name and reputation. Nonetheless, our research shows that in terms of gaining substantial assets, the SAS event is less effective than in gaining reputation. Table 9.1 below summarizes the main strategic assets which case companies aimed for and the result of what they obtained in these SAS events.
<table>
<thead>
<tr>
<th>Main Strategic assets targeted</th>
<th>Company</th>
<th>Key event</th>
<th>Outcome</th>
</tr>
</thead>
</table>
| Technology related assets    | China 1 | 1         | ✓ Gained high quality technology  
| (including technology patent; R&D personnel) |         |           | ✓ Gained high quality R&D personnel |
|                              | China 2 | 3         | Acquisition was Aborted           |
|                              | China 3 | 2         | Acquisition was Aborted           |
|                              |         | 3         | ✓ Gained high quality technology  
|                              |         |           | ✓ Gained high quality R&D personnel |
|                              | China 4 | 1         | Gained out-dated and wrong technology |
|                              |         | 2         | Gained out-dated and wrong technology  
|                              |         |           | Initially gained but then abandoned majority R&D personnel |
|                              |         | 3         | Gained out-dated technology patents  
|                              |         |           | Initially gained but then abandoned all R&D personnel (return back) |
| Management team              | China 1 | 1         | ✓ Successfully gained an international management team |
|                              | China 2 | 3         | Acquisition was Aborted           |
|                              | China 3 | 1         | ✓ Gained experienced management team |
|                              | China 4 | 2         | Initially gained but then abandoned majority of the managers |
|                              | China 4 | 3         | Initially gained but then abandoned two thirds of the managers from French 2 |
| Marketing channels           | China 1 | 1         | Did not gain marketing channel    |
|                              | China 2 | 3         | Acquisition was Aborted           |
|                              | China 3 | 2         | Acquisition was Aborted           |
|                              |         | 3         | ✓ Utilized Japan 1’s marketing channels to enter Japanese market |
|                              | China 4 | 1         | Did not gain marketing channel    |
|                              |         | 2         | Initially gained but then abandoned |
|                              |         | 3         | Initially gained but then abandoned |
| Brand name                   | China 2 | 3         | Acquisition was Aborted           |
|                              | China 3 | 2         | Acquisition was Aborted           |
|                              | China 4 | 1         | Gained useless brand              |
|                              |         | 2         | Gained out-dated brand            |
|                              |         | 3         | Gained out-dated brand            |
| Reputation                   | China 1 | all the events | ✓ More or less gained brand awareness in prestige market |
|                              |         |           |                                   |
From the table we can see that, in terms of technology related assets, seven events showed a strong intention to gain technology patents and R&D personnel. Excluding the two unrealized events, only two of the remaining five realized events were observed to have successfully gained advanced technology and valuable R&D personnel. The other three events conducted by China 4 did not perform effectively. It targeted out-dated and wrong technology, also it abandoned the majority of valuable R&D personnel it initially acquired.

With reference to the management team, in five of these events, case companies intended to gain international management personnel. Except for one unrealized event, two events were observed to have successfully gained a management team; while the other two events initially acquired management personnel but later abandoned the majority of the management teams.

In reference to marketing channels, seven key events aimed to gain marketing channels. With two unrealized acquisitions, only one event conducted by China 3 was observed to have successfully obtained marketing channels.

With respect to foreign brand names, three companies with five events targeted brand names. With one unrealized acquisition, the other three events conducted by China 4 either gained totally useless brands or out-dated brands which failed to show positive effects on its own brand building.

On the other hand, results show that case companies have all successfully gained reputation in these events. They either successfully built up a good reputation in advanced markets (in the case of China 1, China 2 and China 3), or raised its brand awareness which in turn facilitated its further internationalization (in the case of China 4).

Thus, in terms of substantive assets, including technology related assets, marketing
channels, brand names and human resources, SAS is not an effective means for case companies to gain these assets. However, international reputation is the most effectively gained benefit for case companies.

Finding 2:
Case companies’ employees’ knowledge base has been increased, in particular, employee’s mind-set changed. Our interpretation of within-case analysis also indicated valuable benefits which the case companies gained which were not initially targeted by them. By comparing individual cases (Table 9.2), results show that case companies improved in the following aspects: employees’ mind-set in terms of more international oriented, knowledge and experiences about operating in advanced markets, manufacturing technology and management capabilities. Among others, employee’s mind-set was one of the most frequently mentioned benefits that the case companies gained in their SAS events. As Table 9.2 shows, three case companies mentioned that through international strategic asset-seeking activities, their employees’ knowledge base and horizon have been broadened. Specifically, we found evidence in the following four aspects: employees are more internationally orientated; they improved their English skills; they realized the gaps between their company and world leading MNEs; and they gained new concepts from internationalization. For example, in the case of China 4, it realized its poor technology capability as the big constraint and decided to invest in R&D in LCD technology. A detailed description can be found in each within-case analysis chapter.
Table 9.2: Other main benefits gained through SAS events

<table>
<thead>
<tr>
<th>Other benefits gained</th>
<th>Company</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees’ knowledge base</td>
<td>China 1</td>
<td>International orientation; foreign language skills</td>
</tr>
<tr>
<td></td>
<td>China 2</td>
<td>Broaden horizons: What a real MNEs is; realize the gap between China 2 and western MNEs</td>
</tr>
<tr>
<td></td>
<td>China 4</td>
<td>International orientation, foreign language skills, broaden horizons: realize the gap between China 4 and western MNEs, realize the importance of investing in R&amp;D</td>
</tr>
<tr>
<td>Knowledge and experiences of operating in advanced markets</td>
<td>China 3</td>
<td>Gained experiences which helped China 3 to successfully expand into European market; Gained knowledge about local market and forefront industry information</td>
</tr>
<tr>
<td>Manufacture management and technology</td>
<td>China 2</td>
<td>Improvement in safety management and product quality control.</td>
</tr>
<tr>
<td></td>
<td>China 4</td>
<td>Dramatically improved its manufacturing capabilities in mobile phone sector; Introduced a new factory</td>
</tr>
</tbody>
</table>

9.3 Underlying factors in the pattern of asset acquisition

In our within-case analysis, the pattern describing the relationships between relevant variables (including those predicted in the literature and those newly emerged from data) has been drawn from each event. Through comparing the patterns of each SAS event conducted by these four cases, the factors underlying the effectiveness of the SAS events can be clarified. Thus, patterns are revealed which indicate the general trend and also incorporate individual trends under certain conditions emerging from individual cases.

9.3.1 Identification

In each within-case analysis, case companies’ abilities to identify the value of the target were displayed. Relevant underlying factors influencing case companies’ ability to identify also emerged. Through across-case analysis (Table 9.3), we find that case
Table 9.3: Case companies’ different levels of ability to identify

<table>
<thead>
<tr>
<th>Cases</th>
<th>Observed ability to identify the value of external assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>China 1</td>
<td>Generally HIGH</td>
</tr>
<tr>
<td></td>
<td>In general good understanding about the target except that initially targeted marketing channel which in effect did not belong to US 1’s PC sector.</td>
</tr>
<tr>
<td></td>
<td>Evidence:</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 1</strong>: Aimed for US 1’s PC unit which is a valuable and appropriate target for China 1 to gain advanced technological assets, international management team and reputation. However, failed to identify that US 1’s PC unit had no marketing channel.</td>
</tr>
<tr>
<td>China 2</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>Good understanding about target and foreign market</td>
</tr>
<tr>
<td></td>
<td>Evidence:</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 1</strong>: Selected UK 1’s 21CN project which was an appropriate opportunity to build up its reputation in advanced markets.</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 2</strong>: Selected UK 2 which was in the leading position of 3G technology to build up its reputation in world 3G market.</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 3</strong>: SAS event was aborted as the company identified the inappropriateness of the target given the high price</td>
</tr>
<tr>
<td>China 3</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>Good understanding about target and foreign markets</td>
</tr>
<tr>
<td></td>
<td>Evidence:</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 1</strong>: Selected US market which was an appropriate target for China 3 to gain reputation, and high quality local management team.</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 2</strong>: Selected Japan 1 which possessed advanced technology and marketing channels to enable China 3 to gain these benefits.</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 3</strong>: Selected US 2 as the appropriate target rather than US 3 and French 1. The asset-seeking was aborted in the end, as China 3 identified the big challenges of US 2.</td>
</tr>
<tr>
<td>China 4</td>
<td>LOW</td>
</tr>
<tr>
<td></td>
<td>Poor understanding about the target, foreign market culture and regulation</td>
</tr>
<tr>
<td></td>
<td>Evidence:</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 1</strong>: Targeted completely useless assets, i.e. out-dated brand name and technology which was even behind China 4.</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 2</strong>: Targeted out-dated brand name and wrong technology, failed to identify the challenges coupled with these assets, which caused huge loss for China 4.</td>
</tr>
<tr>
<td></td>
<td><strong>Key event 3</strong>: Targeted out-dated technology which did not help to improve its own technology capability, failed to identify the challenges coupled with the assets which caused huge loss for China 4.</td>
</tr>
</tbody>
</table>
companies had different levels of ability with respect to identification. We can classify the four case companies into two general groups, viz. cases with a generally high identification ability vs. cases with a low identification ability in their SAS activities (Table 9.4). Through comparing cases with high and low identification ability, factors that facilitated or handicapped case companies’ identification ability were clarified and consolidated respectively.

Table 9.3 briefly lists evidence for each case company’s different level of ability with respect to identification. China 1, China 2 and China 3 showed a generally high ability in the identification process. They targeted valuable assets which were appropriate for them to strengthen their competences. On the contrary, China 4 possesses low identification ability. It targeted the wrong assets which were of low quality or beyond its ability to obtain.

A comparison between case companies with high and low identification ability explores the factors that underpin case companies’ different levels of identification ability.
Table 9.4: Underlying factors of the observed identification ability

<table>
<thead>
<tr>
<th>Factors which facilitated case companies to identify the value of the target</th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Prior ties with target</td>
<td>China 1</td>
<td>China 2</td>
</tr>
<tr>
<td>Medium level cooperation through learning and indirect working with the target</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Deep cooperation with target before. (Had direct working experiences)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2: Prior knowledge seeking experiences in international markets</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>NO prior knowledge seeking experiences in international markets</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Rich international knowledge seeking experience. A series of knowledge seeking means.</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3: Investigation and research prior to event</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Thorough investigation to understand the target before making decision.</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>N/A Not raised by respondents</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>4: Lack of knowledge to identify technological trend</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>N/A Not raised by respondents</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>5: Lack of understanding about target’s culture and regulations</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>N/A Not raised by respondents</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>6: Lack of specialist talents with international operation experiences</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Not raised by respondents</td>
<td>Not raised by respondents</td>
<td>Not raised by respondents</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>7: Over-ambitions of the company leader</th>
<th>N/A</th>
<th>N/A</th>
<th>N/A</th>
<th>✓</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not raised by respondents</td>
<td>Not raised by respondents</td>
<td>Not raised by respondents</td>
<td>Leader’s Strong ambition to change.</td>
<td></td>
</tr>
</tbody>
</table>

Through the above comparison, the results suggest that prior knowledge base of the case company is the major influence on the case companies’ ability to identify. In particular, we identified the following factors which facilitate case companies to identify the value of external assets, i.e. prior knowledge seeking experiences, prior ties with target, investigation and research on the appropriateness of assets. Specifically, in the case of China 1, which did not have a rich prior knowledge base, it supplemented its knowledge base about the target assets through research and investigation beforehand.

On the contrary, in case company China 4, that has a low identification ability, these factors were not observed. Rather, the following factors are found to handicap its identification ability, i.e. lack of knowledge to identify technology trend, lack of knowledge about target’s culture and market regulations, lack of specialist talents with international operation experiences. Moreover, the over-ambitions of its company leader, i.e. its high ambition compared with its low prior knowledge base, has been found critical in causing China 4 to fail to form a correct expectation about the value of the external assets.

In conclusion, we can obtain the following finding:
**Finding 3:**

Case companies’ ability to identify the value of external assets varies across companies. Specifically, case companies’ knowledge base influences their ability to identify the value. However, a case company without a sufficient knowledge base can increase their knowledge about the target through making preparations beforehand. The leader’s strong ambition can act as a hindrance when the case company has a poor prior knowledge base.

### 9.3.2 Effort made for acquisition

The intensity of effort made in acquisition is a critical factor to influence firms’ absorptive capacity in the dimension of acquisition (Kim, 1997; Zahra and George, 2002). In our within-case analysis, effort made for acquisition is found to be the second dimension underlying the outcome of case companies’ SAS events. We find that the level of efforts case companies made in order to acquire the assets they targeted were different. Table 9.5 below displays case companies’ different levels of efforts made for acquisition.
Table 9.5: Levels of effort made for acquisition

<table>
<thead>
<tr>
<th>Case companies</th>
<th>Key event</th>
<th>Intensity of effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>China 1</td>
<td>1</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>a)</td>
<td>Brought in consulting companies</td>
</tr>
<tr>
<td></td>
<td>b)</td>
<td>Established special teams</td>
</tr>
<tr>
<td></td>
<td>c)</td>
<td>Rounds of debates listed all the possible challenges and solutions</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>a)</td>
<td>Established special teams</td>
</tr>
<tr>
<td></td>
<td>b)</td>
<td>Long term resource commitment to build up requisite capabilities</td>
</tr>
<tr>
<td></td>
<td>c)</td>
<td>Brought in specialist key persons</td>
</tr>
<tr>
<td></td>
<td>d)</td>
<td>Already built up partial requisite capabilities</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>MEDIUM (already built up some important requisite capabilities )</td>
</tr>
<tr>
<td></td>
<td>a)</td>
<td>Established special teams</td>
</tr>
<tr>
<td></td>
<td>b)</td>
<td>Already built up partial requisite capabilities</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>N/A (already possessed requisite capabilities in terms of world first level manufacturing capability and management capability )</td>
</tr>
<tr>
<td>China 3</td>
<td>1</td>
<td>HIGH</td>
</tr>
<tr>
<td></td>
<td>a)</td>
<td>Company leader organized special group for several rounds of site visits</td>
</tr>
<tr>
<td></td>
<td>b)</td>
<td>Thorough investigation about market knowledge and regulations</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>MEDIUM TO LOW</td>
</tr>
<tr>
<td></td>
<td>a)</td>
<td>Designed the acquisition scheme simply by top management team, without hiring any professional companies</td>
</tr>
<tr>
<td></td>
<td>b)</td>
<td>Did not possess requisite capabilities</td>
</tr>
</tbody>
</table>

Our interpretation of the case study information is that case companies China 1, China 2 and China 3 made ‘High to medium’ level efforts in order to acquire the targeted assets. We identify the level of efforts in event 2 of China 2 as medium to reflect the fact that the company already possessed some of the requisite capabilities, but also
chose to complement this with the formation of a special team for identifying specific weaknesses that would need to be addressed. Also, when a case company already possesses the requisite capabilities, intensive efforts were not observed (e.g. event 2 of China 3). By contrast, in China 4’s three key SAS events, it did not possess the requisite capabilities and also did not make high level of efforts.

Further comparison between cases devoting high level of efforts and cases devoting low level of efforts (except for event 2 of China 3 which had built up the requisite capabilities) helps to indicate factors that underlie the pattern (Table 9.6).

Table 9.6: Factors underlying different levels of effort made for acquisition

<table>
<thead>
<tr>
<th></th>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>China 1</td>
<td>China 2</td>
</tr>
<tr>
<td></td>
<td>Key event 1</td>
<td>Key event 1&amp; 2</td>
</tr>
<tr>
<td>Triggers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Previous failure experience in diversification</td>
<td>X No trigger was raised by respondents</td>
</tr>
<tr>
<td></td>
<td>strategy makes the firm very cautious</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>X No trigger was raised by respondents</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leaders’ attitude towards investing resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Leaders pushed the firm to make thorough efforts</td>
<td>Very strong determination to support resource</td>
</tr>
<tr>
<td></td>
<td></td>
<td>commitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Understanding about difficulties</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Good understanding about difficulties it might face</td>
<td>Not raised by respondents as a key factor</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Through the above comparison, we clarified the underlying determinants in relation to this dimension. Specifically, results show that leaders’ attitude towards making efforts is the most influential factor in determining case companies’ willingness to devote resources and make efforts. All the cases that made high level of efforts were influenced by the leader’s support for resource commitment on making efforts. Besides, when a case company encountered a trigger, it is likely to stimulate the company to devote resources (e.g. in the case of China 1, it had encountered failed diversification strategy before). In addition, when the event’s acquisition dimension is challenging, understanding the difficulties is important to stimulate case companies to make efforts (e.g. China 1 and China 3). By contrast, in China 4 which made a low level of effort, all the above factors were not found. It did not understand the difficulty of the events. Its previous successful market performance makes it underestimate the difficulties of the event. Also, it did not encounter triggers. The leader of China 4 also did not show a strong support for pushing the company to devote resources. All of these led China 4 to make low levels of efforts.

In conclusion, we get the following finding with regard to the efforts made for acquisition:

**Finding 4:**

Case companies show different levels of efforts in acquiring targeted assets. The level of efforts made is influenced by three factors: leaders’ attitude on devoting resources to support efforts, firms’ understanding about the difficulties when the acquisition is challenging and triggers firm encounter.

### 9.3.3 Emerged issues relating to the ability to retain acquired assets

In within-case analysis of China 4, we observed an emerging issue relating to retaining the valuable assets it initially had acquired. In key events 2 and 3 of China 4, we found that China 4 failed to retain some of the acquired valuable assets, including R&D
resources, management personnel and marketing channels. A cross case analysis indicated that the other three case companies did not encounter the same problems. However, in each within-case analysis, these three companies have shown evident considerations of the potential challenges of retaining the acquired assets. The table below lists the observed evidence for the emerged issue of ability to retain the acquired assets before the formal assimilation.

**Table 9.7: Evidence for the emerging issue relating to retaining acquired valuable assets**

<table>
<thead>
<tr>
<th>Country</th>
<th>Observed evidence for the emerged issue of retaining acquired valuable assets</th>
<th>Outcome of involved events</th>
</tr>
</thead>
<tbody>
<tr>
<td>China 1</td>
<td>The issue of whether it can retain the international management teams in key event of China 1 have been considered at the start of the events; special and thorough efforts were made to tackle this potential challenge.</td>
<td>Success</td>
</tr>
<tr>
<td>China 2</td>
<td>The issue of retaining acquired human resources and marketing channels was an important consideration when attempted to acquire UK 3.</td>
<td>Aborted the acquisition</td>
</tr>
<tr>
<td>China 3</td>
<td>When making the decision of acquiring US 3, not being able to retain the R&amp;D systems and marketing channel was the major reason that China 3 aborted the acquisition.</td>
<td>Aborted the acquisition</td>
</tr>
</tbody>
</table>
| China 4   | Failed to retain several acquired core assets  
1: failed to retain majority of the valuable human resources it acquired (R&D talents and managerial talents) in key events 2 & 3.  
2: failed to retain the valuable R&D systems it acquired in key event 3; returned back the whole R&D department.  
3: failed to retain marketing channels and valuable overseas businesses in key events 2 & 3. | General Failure in event 2; Total failure in event 3. |

As shown in the above table, in the case of China 1, the potential challenges of maintaining the acquired management teams was carefully considered and measurements were made to specially tackle this issue. In the case of China 2 and China 3, the difficulties of retaining valuable R&D resources and marketing channels which were regarded as beyond their abilities, were major reasons why China 2 and China 3 gave up the acquisition of UK 3 and US 3 respectively. In China 4, it failed to
retain the initially acquired valuable R&D talents, managerial personnel and marketing channels, which caused it to abandon the above assets without being able to formally assimilate them. This indicates the emerging issues of retaining the acquired valuable assets as an important element before formal assimilation. Whether the acquired assets are retained therefore influences the outcome of case companies’ SAS events (see Table 9.6). Moreover, the interpretation of the case study indicates that case companies’ ability to retain the acquired assets also influences case companies’ SAS decision (China 2 and China 3). Therefore, our study finds a new element which needs to be considered in the context of absorptive capacity as an underlying factor for SAS events, i.e. the ability to retain the acquired assets.

An analysis of difficulties actually encountered and anticipated potential challenges relating to retaining acquired assets further explores the dimensions of this new element. Table 9.7 generally classifies two dimensions of retaining problems which emerged in case companies, i.e. financial dimension and managerial dimension.

In terms of financial dimension, sufficient financial support has been found as a critical factor for case companies to retain assets. China 1 and China 2 had carefully considered the issue of whether they have sufficient capital to retain the acquired assets. China 1’s strong financial support and its measures on cutting down operational cost facilitated it to retain the acquired valuable management talents. By contrast, China 4 had to abandon the acquired valuable assets due to its financial inadequacy.

In terms of managerial dimension, culture management and relationship with marketing channels are two main issues. Specifically, culture management is a big issue raised by China 1 and China 4. For China 2 and China 3 which had rich international experiences and many successful overseas culture management and expansion experiences, culture management is not a major issue, but for China 1 and China 4, with few international experiences especially in advanced markets, the issue of culture management is salient. Besides, the problems of dealing with complicated R&D partners are also managerial
difficulties for case companies to retain the acquired valuable assets.

Table 9.8: Dimensions of the issue of retaining acquired assets

<table>
<thead>
<tr>
<th></th>
<th>China 1 Key event 1</th>
<th>China 2 Key event 3</th>
<th>China 3 Key event 3</th>
<th>China 4 Key event 2&amp;3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Considered high cost of maintaining international management team as main issue in</td>
<td>Carefully considered the potential high requirement on capital to maintain high</td>
<td>Not observed</td>
<td>Lack of sufficient financial support as the direct reason which made it unable to</td>
</tr>
<tr>
<td>aspect</td>
<td>key event 1, and provided sufficient measurements and capital to sustain.</td>
<td>cost European labour and the potential high cost involved in carrying out redundancy</td>
<td></td>
<td>maintain high cost foreign labour and marketing channel (2 &amp; 3)</td>
</tr>
<tr>
<td>Managerial</td>
<td>Considered culture management as a major issue, and developed measurements to</td>
<td>Not observed</td>
<td>Considered the potential challenge to manage the complicated R&amp;D partnerships and</td>
<td>Inability to manage different cultures and maintain relationships with channels</td>
</tr>
<tr>
<td>aspect</td>
<td>tackle.</td>
<td></td>
<td>maintain the delicate marketing channels as major issues in key event 3.</td>
<td>in key events 2 &amp; 3.</td>
</tr>
</tbody>
</table>

A further across-case analysis by comparing cases with a high ability to retain and the case with a low ability to retain explores the underlying factors for case companies’ ability to retain (Table 9.8). Our interpretation of case study information is that: China 1, China 2 and China 3 in their SAS events are observed to be able to retain the assets they acquired, therefore, they are classified as having a good ability to retain the acquired assets; while China 4 failed to retain some of the valuable assets it acquired, thus is classified as having a poor ability to retain.
Table 9.9: Underlying factors of the issue of retaining acquired valuable assets

<table>
<thead>
<tr>
<th>Ability to sustain the acquired assets</th>
<th>Good</th>
<th>Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained the acquired valuable assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>China 1</td>
<td>China 2</td>
</tr>
<tr>
<td>Identification</td>
<td>Fully identified the difficulties and challenges coupled with the assets</td>
<td>High ability to identify the value of target including inappropriateness of the assets when the difficulties and challenges coupled with retaining the assets are beyond its ability to cope.</td>
</tr>
<tr>
<td>Effort made for Acquisition</td>
<td>Thorough efforts were made and measurements were developed to retain assets.</td>
<td>Intensive efforts + pre developed requisite capabilities</td>
</tr>
</tbody>
</table>

Through comparison, we identified the relationship between ability to identify, efforts made for acquisition and ability to retain. We found that case companies (China 1, China 2 and China 3) with high ability to identify the value of the target and make high intensity acquisition effort encountered no problems in retaining assets they acquired. When a case company identified the potential challenges of retaining the assets, it could make thorough efforts to overcome these difficulties (e.g. China 1). For assets which are valuable but are considered to be beyond their ability to retain, case companies will simply not take the deal (e.g. China 2 and China 3). On the contrary, China 4 did not possess a good ability in identifying the value of the assets, moreover, it failed to make thorough efforts, which leads to severe problems of retaining the acquired targets, especially in R&D resources, marketing channels and international...
management personnel.

In conclusion, we can produce the following finding with respect to the emerged new issue of retaining acquired valuable assets.

**Finding 5:**

The ability of retaining acquired assets is important in particular when foreign personnel and marketing channels are concerned. There are two types of problems occurring in retaining, i.e. financial aspect and managerial aspect. The ability to retain is affected by both identification and acquisition dimensions.

Consequently, combining the above analysis together, we can get the following finding in reference to the underlying factors for the outcome of SAS events in the context of absorptive capacity.

**Finding 6:**

Case companies’ absorptive capacity in the dimensions of identification, efforts made for acquisition and issues relating to retaining acquired assets underpins the outcome of case companies’ SAS events.

### 9.4 Conclusion

In this chapter, we have conducted cross-case analysis with respect to the effectiveness of the strategic asset-seeking (SAS) events in the process before formal assimilation and the underlying factors in the pattern of asset acquisition. Through seeking for similarities and differences among different cases, we have produced 6 findings. The indications of these findings will be discussed in next chapter.
Chapter 10

DISCUSSION

10.1 Introduction

The aim of this chapter is to discuss the key findings generated from case studies. According to our knowledge, previous studies have not systematically investigated the relationship between absorptive capacity and EMNEs’ strategic asset-seeking internationalization activities. The question of how absorptive capacity affects the results of SAS events of EMNEs remains unanswered, although several streams of existing literature have indicated the relevance of AC and SAS activities. Our research seeks to address this literature gap by investigating how absorptive capacity at the firm level influences firms’ strategic asset-seeking internationalization activities in particularly focusing on the process before assets’ or capabilities’ assimilation, so as to provide a deep and focused analysis.

In general, our interpretation of case evidences suggests a close linkage of absorptive capacity and outcomes of SAS internationalization by Chinese MNEs. Specifically, we explored the influence of two dimensions of absorptive capacity, i.e. identification and acquisition, and a new dimension that emerged from our data, i.e. ability to retain the acquired assets, which act as the internal construct that influences the outcome of firms’ strategic asset-seeking through internationalization. Given the small sample (four cases involved) of this study, it does not allow for a statistical generalization to a large population. However, we can draw propositions based on findings from within- and cross-case analysis for the purpose of theoretical generalization.

To this end, this chapter is structured as follows. In the second section, the three dimensions of absorptive capacity as the underlying factors of SAS events will be
discussed separately, the determinants of each dimension will also be examined. Next, the outcome of the SAS events will be considered and linked with the dimensions of absorptive capacity. Finally, an integrated framework will be presented. Taking literature and empirical findings together, propositions will be drawn to suggest the linkage of absorptive capacity to strategic asset-seeking internationalization. Hereafter, the key findings with regard to these three dimensions and the linkage with SAS outcomes are discussed.

10.2 Absorptive capacity as the underlying factor of strategic asset-seeking internationalization

Our research evidence showed that all of these firms have expressed their strategic asset-seeking intents explicitly in their key SAS events. Meanwhile, our findings also suggested that case companies aimed for entering into a new market coupled with seeking strategic assets. For example, in the acquisition of US 1, China 1 was also motivated by gaining customers and market shares in order to penetrate the US market. Similarly, one of the important goals of both China 2 and China 3’s SAS events was to enter into advanced markets. When describing why China 3 decided to establish a factory in the US market, Respondent 1 made the following explanation: ‘...apart from the consideration of building up our capabilities, the other important reason is that the excess capacity in China causes the profit margin in the domestic market to be very low. In order to grow, we have to expand the overseas market.’ In the case of China 4, its leaders have foreseen the future saturation of the industry in the domestic market. Therefore, they need to internationalize to seek new markets. This confirms that firms are pursuing multiple purposes simultaneously in their internationalization activities (Dunning, 1993). However, in reference to the focus of our study, i.e. firms’ internationalization with a clear aim of seeking strategic assets, it requires us to better understand case firms’ internationalization by examining firms’ absorptive capacity.
10.2.1. The ability to identify the value of the external assets

The first element which emerged from case data that acts as an underpinning factor of firms’ outcome of SAS international activities is identification ability. Based on our observation, we define it as case companies’ ability to identify the appropriateness of external assets.

The empirical observation of our finding showed that case companies have different levels of identification ability in the SAS events they conducted. Three of the case companies China 1, China 2 and China 3 demonstrated a generally high ability to identify the value of an external target. However, China 4 showed a low ability in recognizing the value of assets (See Table 9.3 in chapter 9).

Case companies’ ability to identify external assets is critical for the outcome of SAS events in that: firms with a high ability of identification can recognize the appropriateness of the target in terms of fulfilling their strategic intents. They only aim for appropriate targets which are valuable and within the firms’ ability to absorb (China 1, 2 & 3); by contrast, firms with a low ability of identification can fail to identify the value of the target, and this leads to the following outcomes:

1) Targeted completely useless assets which leads to closing down of the business acquired (e.g. Key event 1 of China 4)

2) Targeted out-dated assets which leads to huge loss for the company (e.g. Key events 2 & 3 of China 4)

3) Targeted valuable assets which were beyond its ability to absorb (e.g. Key events 2 & 3 of China 4)

Nonetheless, early studies have not given enough attention to the notion of firms’ ability to identify the value of external assets (Todorova and Durisin, 2007). In their widely accepted framework of the four dimensions of absorptive capacity, Zahra and George (2002) did not single out ‘identification’ as a separate dimension but
incorporated it under the component of ‘acquisition’. This has been suggested as the first component of absorptive capacity referring to the ability to both identify and acquire the external valuable targets (Zahra and George, 2002; McAdam et al., 2009). However, Todorova and Durisin (2007) argued that it is necessary to reintroduce identification of the value of external assets as the first element in absorptive capacity. Likewise, Lane et al. (2006) also raised similar arguments by restructuring the framework of the dimensions of absorptive capacity and considering the ability to recognize the value of external assets as the first and separate element. In spite of this, there was still lack of strong empirical evidence to support the significance of identification.

Thus the findings of our study in terms of identification challenged the four dimensions model of absorptive capacity. Our interpretation of the four cases highlights the role of firms’ ability to identify in the context of EMNEs’ SAS internationalization. Therefore, we confirms Todorova and Durisin (2007) and Lane et al. (2006)’s proposition by providing strong empirical evidence for the necessity to place identification as the first and separate dimension. Since different firms have different ability to identify the value of the external assets, firms’ ability to recognize the value of external assets influences their strategic asset-seeking results.

To separate identification as the first element is of particular significance to Chinese firms who attempted to utilize outward internationalization as a means to gain strategic benefits. The ability to identify is not automatically possessed by every firm (Todorova and Durisin, 2007). It is highly related to the prior knowledge base (Cohen and Levinthal, 1990). Following these suggestions, for firms from advanced economies, it may be sensible to consider that they already have the ability to recognize the value of external assets. However, as to firms from emerging economies which are regarded as possessing a smaller knowledge base in general (Zhu et al., 2007), the ability to recognize the value of external assets should not be taken for granted (Todorova and Durisin, 2007).
10.2.1.1 Determinants for identification ability

Our finding also suggests the factors that influence firms’ identification ability. This would help us to thoroughly understand firms’ identification ability and provide guidance for firms to build up their identification ability.

Extant studies have highlighted the importance of R&D capabilities in determining firms’ absorptive capacity. There are authors conducting research on firms’ absorptive capacity level solely relying on R&D related proxies (Stock et al., 2001; Murovec and Prodan, 2009). The findings of this research challenged this measurement and clearly suggested that R&D capability is but one indicator for firms’ absorptive capacity among others (Easterby-Smith et al., 2008). As a domain-specific and path-dependent construct (Cohen and Levinthal, 1990), our data confirmed that the case companies’ absorptive capacities in the dimension of identification are influenced by many factors (Yeoh, 2009; Jansen et al., 2005).

Specifically, our finding stresses the following elements that contribute to case companies’ different levels of identification ability (see data matrices presented in chapter 9): prior ties with target, knowledge about foreign market regulations and culture, investigation beforehand, prior knowledge seeking experiences in international markets, specialist talent, ability to identify technology trends, and leader’s over ambition as a discouraging factor. The key findings with regard to these underpinning factors are discussed below.

1. Relative absorptive capacity in terms of familiarity with target and host market culture and regulations

Kim and Inkpen (2005) studied the role of relative capacity in the specific context of technology learning and noted two indicators for relative absorptive capacity, i.e. technology overlap and prior ties. In a cross-culture context, Tarique and Caligiuri (2009) pointed out that familiarity with foreign culture is an important contributor for a
shared knowledge base between partners. In our case studies, findings clearly suggest that case companies’ prior ties with target or host market, knowledge about host market and foreign culture both contribute to the similarity between the partners’ knowledge base. Based on literature, we can classify the above factors into the concept of relative absorptive capacity (Kim, 1997).

Authors have argued the importance of relative absorptive capacity in inter organizational learning (Lane and Lubatkin, 1998). In a joint venture context, Lane et al. (2001) found that relative absorptive capacity is positively related to firms’ ability to understand the assets from parents, which is in fact the firms’ identification ability. According to Lane and Lubatkin (1998), the knowledge transfer process is pertinent to the cognitive distance between two partners. Being familiar with the partner firms can enhance the similar knowledge base between partners and therefore decrease ‘cognitive distance’ between them (Foss, 1999; Duanmu and Fai, 2007). With the small cognitive distance, this would enhance the relative absorptive capacity (Lane and Lubatkin, 1998), thus help firms to recognize the value of the assets in the knowledge transfer process.

Thus, our findings highlight the influence of relative absorptive capacity on case companies’ identification ability and found two factors which have a significant impact on case firms’ identification ability, namely, prior ties with target firms’ assets and/or host market, and knowledge of foreign market regulations and culture.

With respect to prior ties with target or host market, we found that case companies with prior ties with the target or host market was the most influential factor for a high relative absorptive capacity. Three of the case companies have had working experiences with the target companies. Among them, China 1 had an indirect interaction with the target through benchmark learning and being an agent for US 1, the other two companies (China 2 and China 3) all had deep cooperation experiences with target companies in the forms of equity joint ventures or strategic alliances. However in the case of China 3, it also had prior ties with the host market in the form of exporting to
the host market before it established wholly owned subsidiaries there.

Authors have indicated that inter firm linkages can increase firms’ knowledge base (Yeoh, 2009). Yeoh (2009) in his study found that Asian firms can upgrade their technological capabilities through being suppliers of parts and products for MNEs. Our findings confirmed that through these prior ties with the target, case companies accumulated knowledge and understanding about the target company, built up shared knowledge base and thus was better able to identify and understand the assets they targeted (Cohen and Levinthal, 1990; Kim and Inkpen, 2005). Different from past studies which focus on a dyadic relationship, we see relative absorptive capacity not only between partner firms, but also between a firm and foreign market when a Greenfield investment is concerned (e.g. in the key event 1 of China 3), i.e. prior ties with the host market.

What is more, our findings suggest that the investigation about the target beforehand can increase firms’ knowledge about the targeted assets. This gives a way for other emerging economies’ MNEs when they do not have a close interaction with the target. Investigation particularly about the target can accumulate knowledge and therefore shorten knowledge distance. We also found that investigation about the target beforehand can increase the relative absorptive capacity of case companies. As presented in within-case analysis of chapter 5, the investigation enabled China 1 to learn more about the target, and have a better understanding about the assets. As explained by a respondent from China 1,

‘the investigation before we made our decision to acquire US 1’s PC unit is helpful in that it allows us to spend specific energy and resources on understanding the target which we would otherwise not have had a chance to do.’

Thus taking extant literature and evidence from our case study, we can understand that familiarity with the target narrows the distance between the two firms in terms of
capabilities and knowledge base. It helped firms to recognize the value of the target firm, and therefore make the right decisions about whether or not to take actions. Firms would know more clearly whether or not the assets were what they aimed for. On the contrary, lack of prior ties with the target would cause risks for Chinese companies.

Another factor that plays an important role in enhancing case firms’ relative absorptive capacity is the knowledge about host market culture and regulations. Extant studies have emphasized knowledge about foreign markets as an important element for firms’ knowledge base in international activities. Rhee (2008) stressed that lack of sufficient knowledge about foreign markets is an important source of uncertainties in pursuing international expansion. In particular, in our study we found knowledge about host market culture and regulations to be the major knowledge that case companies needed. For example, in China 4, since it did not have knowledge about host country culture and regulations, it targeted assets, which were beyond its expectation. Whereas, our cross case analysis showed that the other three case companies did not face this problem and they showed high identification ability.

Specifically, in terms of culture, Tarique and Caligiuri (2009) highlighted the prior accumulated cultural knowledge as an essence for effective knowledge acquisition especially when firms are facing a new culture. The big and salient culture difference between Chinese enterprises and western counterparts (Li et al., 2001) further requires Chinese companies to pay special attention to the culture knowledge of the host market. Our finding confirmed that being unaware of culture differences has been a detrimental factor that prevented case companies understanding the management styles and mind-sets of targets. For example, in the case of China 4 acquiring French 1, French 1’s employees complained that China 4’s staff did not know how to enjoy life and take a break from working during the weekends. However, China 4’s staff complained about French 1 staff as they could not be contacted during weekends, which deferred many business activities and decision
Meanwhile, the rules and regulations in foreign markets are also items of the knowledge that Chinese firms need to have. This is understandable as China has been rooted in centrally planned economies. The underdeveloped external market of emerging economies (Yiu et al., 2007), may lead to Chinese firms’ lack of knowledge about rules and regulations of foreign markets and therefore they could not form a correct expectation about the value of the assets. In the same vein, Buckley et al. (2007) in their study also argue that Chinese firms that invest abroad have to straddle environments, institutions and rules that differ probably more than for any other outward-investing country in the world (Buckley et al., 2007). Thus, being familiar with rules and regulations in the host market is important for Chinese firms in order to identify the value of the assets.

Taken together, we can propose that relative absorptive capacity is a critical factor that impacts firms’ identification ability.

2. Knowledge about technology trend

One of the important manifestations of absorptive capacity is that firms with high absorptive capacity can identify the technology shift in the industry (Cohen and Levinthal, 1990). Our case study findings support this view and suggest that case firms’ ability to identify technology trend is critical for them to target the right and valuable technological related assets. Numerous early studies have stressed firms’ R&D level as the key determinant of firms’ absorptive capacity (Zahra and George, 2002; Schoenecker and Swanson, 2002). Our finding confirmed that in the domain of seeking for technological–related assets, strong R&D capabilities would enable firms to understand the environment better, sense and seize the right opportunities, therefore target the right technology.

This is especially evident in the case of China 2 and China 4 where specific technologies were involved as the major assets that case companies sought. Due to its
weak R&D capabilities, in all its three SAS events, China 4 gained out-dated technology which was even behind China 4’s own technology in key event 1; in key events 2 and 3, it could not have the correct expectations about the LCD technology and 3G technology development trends respectively. The extract from a respondent illustrated this,

‘The key reason behind this (the failure in terms of seeking for technology) is that China 4 doesn’t possess core technology, and what’s more, China 4’s R&D capabilities are relatively weak. These years, China 4 has stressed marketing skills in the domestic market and did not spend enough attention on R&D capabilities.’

On the contrary, China 2 could target the most advanced 3G technology in the SAS events. This is largely to do with its high R&D investment every year (see chapter 6), which permits it to form a correct expectation about the importance of technology.

The self-reinforcing cycle (Cohen and Levinthal, 1990) can explain firms’ different perceptions underlying R&D investments. For example, in the case of China 2, since it attached great importance to self-innovation and made investment in R&D at the beginning of establishment, it created a positive loop. It made investment in R&D, recognized the technology trend, made investment in that technology, enhanced their absorptive capacity, which in turn led to better ability to sense and seize the right technology opportunities. In contrast, China 4 did not make enough investment on R&D capability building. It placed its focus on building up marketing capabilities in the domestic market. Due to years of low investment on R&D, China 4 is in technology ‘lock out’ (Cohen and Levinthal, 1990; Schilling, 1998). It was unable to notice and understand the advanced technology and new technology trend in the industry, which in turn caused the low ability to identify the right technology opportunities in their SAS events.

As emerging economic firms, the average R&D capabilities’ level among Chinese firms
is relatively low (Nolan and Yeung, 2001). Chinese companies’ R&D capabilities have been commented on as being far from able to catch up with western enterprises (Nolan and Yeung, 2001). This adds to the difficulties for Chinese firms to target advanced technologies especially when facing potential technology shift when they are undertaking SAS events. To build up their own R&D capabilities is therefore urgent and significant, to help Chinese firms to catch up with world leading MNEs and target the advanced technology. However, Chinese firms also face the dilemma of whether to make constant and big investments in R&D as they face financial constraints and are subject to the risks associated with investment. The respondent illustrated that

‘We must stress core technology development; otherwise, we will always be subject to western companies. However, technology changed so fast, when we successfully developed the current core technology, the western companies would have already developed more advanced new generation technologies. We will be always one step behind the western companies. The investment on core technology R&D is expensive, we need government support.’

3. Key specialist talents as gatekeepers

Apart from the widely discussed R&D related indicators, the finding of my study highlights the importance of human capital, in particular with the stress on the ‘specialist talents’ which are referred to by respondents as the key people who are familiar with advanced markets, foreign assets and international operating rules, in recognizing the valuable assets. Lacking specialist talents has been stressed many times in China 4 as a critical factor that caused it to identify inappropriate targets over and over again.

In the literature, a few studies (e.g. Kneller and Stevens, 2006; Mangematin and Nesta, 1999; Vinding, 2006; Murovec and Prodan, 2009) have regarded human capital or the individual’s absorptive capacity as a factor that contributes to firms’ absorptive capacity.
Their focus is on the knowledge base of the overall employees, such as using the percentage of educated and skilled employees to reflect human capital (Mangematin and Nesta, 1999). Unlike their studies, our finding actually confirmed the emphasis on the importance of key special talents rather than merely the knowledge base of employees.

Borrowed from Cohen and Levinthal’s notion of ‘gatekeeper’, we can better understand the importance of the special talents to Chinese firms. Cohen and Levinthal introduced the concept of ‘gatekeeper’ (Cohen and Levinthal, 1990) in understanding the construct of absorptive capacity. They referred to gatekeepers as a group of people or an individual that stands at the interface between company and external sources. They argued that the gatekeeper’s knowledge base and willingness to detect new knowledge influenced firms’ willingness to seek external assets and also the ability to identify the value of external assets. The special talents emphasized by case companies actually serve the role of gatekeeper in case companies. Their talents and knowledge base would influence firms’ identification ability. This has been confirmed by Lewin et al. (2011) who suggested that gatekeepers influence firms to identify and recognize externally generated knowledge. Thus, it is easy to understand that when case companies lack these specialist talents, they lack a gatekeeper with sufficient knowledge base to identify the target.

However, it is worth mentioning that extant studies have not paid enough attention to the importance of a gatekeeper in determining firms’ identification ability. Our findings that highlight the influence of key special talents acting as gatekeeper can be explained by our research context. We can presume that since the overall absorptive capacity level of emerging economic firms is relatively low compared with MNEs from advanced markets, thus, to possess ‘specialist talents’ has become an issue in emerging economic firms. Inspired by our empirical evidence, specialist talents would enhance emerging firms’ acumen in terms of discovering and identifying the value of external assets, while lacking the talents who are familiar with overseas markets and international
operating rules would aggregate the risk of targeting assets that are different from firms’ expectation.

Thus the findings of our study firstly highlighted the importance of specialist talents for case companies’ SAS events, then argued that the specialist talents may act as gatekeepers in Chinese firms’ SAS events.

4. Experiential learning through institutional and business network

Experiential learning is an important means for firms to accumulate knowledge and increase their knowledge base. Zahra and George (2002) suggested two means of experiential learning, viz. exposure to external knowledge and knowledge seeking experiences. In line with this, we found that case companies with previous knowledge seeking experiences in international markets are more likely to target high quality assets. By being exposed to international markets, and seeking knowledge in international markets, case companies can get better understanding about international markets and where and how to gain relevant knowledge. Consequently, this helps them to form a correct evaluation about the value of the assets. Thus, prior knowledge seeking experiences in international markets effectively contributed to firms’ knowledge base and in turn enabled them to understand the external assets and therefore deliberately target high quality assets.

Literature suggested that firms can gain knowledge from business networks and institutional networks (Yiu et al., 2007). Our data provide evidence for this. In their previous knowledge seeking experiences in international markets, China 2 and China 3 have actively gained knowledge and information through establishing business networks and institutional networks.

In the case of China 2, it has been actively building up a relationship with and gaining needed knowledge and information from the Chinese embassy. Similarly, in the case of
China 3, it has been found that they had a long history of establishing business networks with suppliers and buyers, ‘in informal or formal ways’. As suggested by the literature, links with domestic trade associations and professional bodies can provide intelligence on different markets and access to those markets (Yiu et al., 2007). From such networks, firms can gain information about the most suitable and profitable investment opportunities (Buckley et al., 2007) and precious information about how to overcome the liability of foreignness (Guillen, 2002). This explains why China 2 could sense and seize the valuable opportunity of UK 1 and UK 2, and also China 3’s good understanding about foreign markets.

Hence, it can be concluded that the possession of network ties facilitates emerging-market firms to accumulate knowledge base when engaging in SAS international activities. Gaining precious information and experiences (Guillen, 2002) thereby facilitates them to identify the value of external assets.

5. Leader’s ambition

Previous studies in emerging MNEs’ international venturing stressed the role of leader as a critical factor enabling emerging economy firms to undertake international venturing activities (Yiu et al., 2007; Deng, 2009). For example, Lee and Slater (2007) suggested that it is firms’ entrepreneurship that drives Korean firms to undertake path-jumping outward SAS investment in developed countries. Studies on Chinese firms’ outward investment in advanced countries also indicate the importance of leader related factors. Authors claimed that Chinese firms have the strong aspiration of becoming world top class MNEs and entering into Fortune’s global 500 (Enright and Vagner, 2005; Zeng and Williamson, 2003). This strong ambition stems from its leader’s vision (Deng, 2008). In the same vein, Deng (2008) studied the rationale for Chinese MNEs’ SAS outward investment and pointed out the top decision makers’ ambition as a factor stimulating their SAS investment.
Similarly, studies on entrepreneurship have also suggested that entrepreneurial firms are described as having the ability to recognize and pursue opportunities well ahead of their competitors, and to do so in spite of the limitations of their resources (Shane and Venkataraman, 2000; Zahra and Dess, 2001). These studies have all shown the positive influence of entrepreneurial rent-seeking activities as an enhancer/driving force facilitating firms in NIE and emerging markets to undertake risk-taking investment behaviour, e.g. strategic asset-seeking outward investment (Lee and Slater, 2007).

Similar to the above studies, our findings firstly suggest a prevalence of strong leaders’ ambition in these SAS events and then provide evidence for the relevance of leaders’ ambitions in case companies’ SAS events. However, some of our findings contradicted extant literature in that we observed a negative influence of leaders’ ambition on case company’s SAS outcome.

In the case of China 4, we see that its leader has a strong incentive to take risks so as to fulfil the ambition of being a world leading player, however, this strong ambition leads to the case company targeting inappropriate assets and generating huge loss. We did not observe similar problems in the other three companies. A cross-case study (Chapter 9) suggested that when a case company (China 4) has a low prior knowledge base (reflected by no prior ties with target, no prior knowledge seeking experiences, poor knowledge about foreign market culture and regulation, lack of specialist talents and knowledge about technology and so on), its leader’s over ambition would have a negative impact in driving the company to overlook its own capabilities and target inappropriate assets.

Taken together, we argue that leader’s ambition is important in that it stimulates firms to undertake outward SAS events; however, it is critical that leader’s ambition should be congruent with firms’ knowledge base so as to have a correct expectation about the appropriateness of external assets and firms’ over capabilities. Leaders’ over ambition relative to its relatively weak prior knowledge base would harm companies’
identification ability.

We argue that the congruency between leader’s ambition and firms’ knowledge base is of great significance for Chinese firms.

Firstly, research suggested that it is entrepreneurs who influence the organization and coordination of resources inside the firm (Barney, 2001) and ultimately control organizations (Lee and Slater, 2007). This is especially the case for Chinese firms. The leader in Chinese firms plays an even more important role. Authors suggested that the management in Chinese enterprises is still very leader-oriented (Deng, 2009; Tsui et al., 2004).

Moreover, Yiu and Makino (2002) suggested that Chinese firms are generally lacking international experiential knowledge. When companies lack international experiences, the corporate values and norms are reflections of their decision makers’ domestic mind-set (Nadkarni and Perez, 2007: P163). Thus, the decision making regarding SAS events is prone to rely on decision makers’ domestic mind-sets. This can be dangerous when leaders form a wrong idea about the external opportunity. We found supporting evidence in China 4, in which due to good domestic market performance, the leader was overconfident about the firm’s own capabilities and underestimated the difficulties the firm might encounter when going abroad, especially to an advanced market. Studies reveal that leaders’ overconfidence may lead to ‘entrepreneurial euphoria’ (Cooper et al., 1988; Rhee, 2008), thus the leaders’ ambition may have a non-significant effect on firms’ performance (Rhee, 2008). The ‘satisfied’ domestic market performance can hamper expectation formation, as the principal decision makers would think highly of their own capabilities to handle SAS events, thus take actions without thorough consideration.

Under these conditions, we can assume that the generally-held high ambitions would be more likely to motivate firms to catch up with western MNEs through SAS activities.
However, in spite of the high ambition of the leader, the knowledge base of Chinese firms in general is considered to be weak. Authors argued that there is still a significant resource gap for Chinese firms to fill in order to catch up with globally competitive multinationals (Huang, 2003; Nolan, 2001, 2002).

Thus, the strong influence of leader’s ambition on one hand, and firms’ relatively weak prior knowledge base on the other further require the congruency between leader’s ambition and firms’ prior knowledge base in the context of EM MNEs’ SAS investment.

10.2.1.2 Proposition 1

In summary, the above five determinants can be classified into two broad categories, i.e. prior knowledge base (Cohen and Levinthal, 1990; Zahra and George, 2002) and leader’s ambition. Our findings supported the general received wisdom that prior knowledge base is the critical factor that determines identification ability. Moreover, different from previous studies, our findings highlight a congruency between firms’ knowledge base and leader’s ambition which should be taken into consideration.

Taken together, we can draw the following proposition:

**Proposition 1**

Identification is the first element that determines whether EMNEs are able to target appropriate assets in their SAS events. Prior knowledge base and leader’s ambition together influenced firms’ identification ability in their SAS events. Firms’ prior knowledge base (consist of R&D capability, knowledge seeking experiences, relative absorptive capacity in terms of prior ties with target and knowledge about host market culture and regulations, and specialist talents) play a positive role on firms’ identification ability. However, leader’s ambition should be congruent with EMNEs’ prior knowledge base so as to play a positive role in motivating firms to undertake SAS events. Otherwise, without sufficient prior knowledge base, leaders’ over-ambitions
would lead to poor identification ability.

The figure below demonstrates the factors that influence firms’ identification ability.
Figure 10.1: Determinants of identification ability

PRIOR RELATED KNOWLEDGE

- R&D capability
- Relative absorptive capacity
  -- Prior ties with target
  -- Knowledge about host market culture and regulation
- Prior knowledge seeking experiences in international market.
- Specialist talents

LEADER’S AMBITION

Identification ability
10.2.2. Efforts made in acquisition

Findings from our case companies showed clear evidence for the process of acquiring the assets after they identified the targets. This provides empirical support for acquisition as an important dimension comprising firms’ absorptive capacity (Zahra and George, 2002). Different from Zahra and George (2002)’s definition, i.e. firms’ ability to identify and acquire externally located assets, our study confirmed Lane et al., (2006)’s separation and referred to acquisition as the second dimension of firms’ absorptive capacity after identification. Acquisition reflects firms’ ability to bring in the external assets into the firm’s boundary. This separation highlights the role of acquisition in SAS events.

Previous scholars have emphasized the effort spent in the acquisition process as a critical factor influencing firms to build up requisite capabilities needed to acquire the assets (Zahra and George, 2002). However, the role of intensity of efforts has been somewhat overlooked at the empirical level. Our findings complement the extant literature on this gap and provide empirical evidence to confirm that when case companies did not possess requisite capabilities, the intensity of effort firms made is a major factor that influences case companies’ ability to acquire the targeted assets. In our case studies, we found, that after case firms identified the targeted assets, they also need to be able to acquire the asset. This process is noteworthy as even though they recognize the value of external assets, whether they can gain the assets is not guaranteed.

As shown in Table 9.3, case companies were found making different levels of effort in their acquisition process. For case companies that did not possess the requisite capabilities in their SAS events, three companies made detailed and thorough efforts (China 1 in its key event 1; China 2 in its key events 1 & 2; China 3 in its key event 1). As confirmed by respondents, these considerable amounts of energy and resources that
firms committed had successfully narrowed the knowledge gap with targets and reduced the uncertainties they might encounter when taking in the assets. On the contrary, in the case of China 4, failing to make thorough effort in the acquisition process has been suggested by several respondents as the major factor that led to China 4’s poor performance in its SAS events (for a detailed description see Chapter 8).

We argue that the effort made in the acquisition process is especially important for Chinese enterprises that undertake SAS events. One of the possible explanations of this could be related to the big gap between Chinese firms and world leading MNEs in terms of technological development and managerial capabilities (Nolan, 2001). As studied by Kim (1997), the more effort firms make, the more quickly firms can build up requisite capabilities. The big distance requires firms to put considerable resources and energy to learn new skills and to build up requisite capabilities so as to enable the acquisition (Cohen and Levinthal, 1990; Kim, 1997), otherwise, the acquisition would be problematic.

Following these suggestions, the effort made during the acquisition process is actually an intensified means for firms to target their weaknesses and build up a knowledge base which in turn enables a smoother knowledge acquisition process (Yeoh, 2009). Our case study also provided evidence for this. We see case companies make efforts in the forms of hiring consulting companies, developing specialized teams, hiring specialist key personnel. Specifically, bringing in consulting companies has been found as a popular means adopted by case companies to boost their absorptive capacity level. Through hiring consulting companies, this can broaden and enlarge firms’ knowledge base (Cohen and Levinthal, 1990), bridge the knowledge gap with target and accumulate a shared knowledge base. As noted by Clark and Fujimoto (1991), for firms to develop absorptive capacity through relying on external sources, the effectiveness is limited in that the learning cycles cannot be shortened easily. Thus through hiring consulting companies or key personnel and developing specialized teams, case firms can devote resources to specifically tackle the weaknesses pointed out by a professional
party in order to smoothly acquire the particular targeted assets.

Taken together, we see that the effort firms made for acquisition serves as a process for case companies to reduce the cognitive distance with the target and enhance firms’ relative absorptive capacity. Efforts firms made in order to acquire the targeted assets can compensate for their relatively low absorptive capacity. Thorough preparation and resource commitment bridge the relative absorptive capacity and facilitate firms to succeed in their SAS events.

10.2.2.1 Determinants for firms making thorough efforts vs. firms making little efforts

There is no literature directly looking at the underpinning factors for firms’ intensity of effort in the acquisition process. However, literature implying the intensity of effort is related to firm’s attitude towards change and triggers it encounters. Our findings confirm these two factors and point out the leader’s role in stimulating firms to make efforts.

Literature suggests that attitudes towards change reflect an individual’s perception about external assets which in turn influences their willingness to make efforts (Murovec and Prodan, 2009; Cohen and Levinthal, 1990). This is important as firms might be aware of the assets but reluctant to make efforts due to their negative attitude towards devoting resources to make changes (Cohen and Levinthal, 1990). The observation of our study identified that attitude towards change and in particular leaders’ attitude is the most influential factor determining firms’ intensity of effort.

In all of the cases, we have found leader’s attitude towards making efforts influenced firms’ intensity of efforts. As commented by respondents in the within case analysis chapter, leader’s willingness to devote resources determines whether firms would like to make thorough efforts. This is supported by Zahra et al. (2006)’s finding that leaders’ willingness to change is critical for firms to enable changes. They further stressed that
it is the key decision makers’ perception towards the environment that decides whether the firm would make changes (Zahra et al., 2006).

Literature also suggests trigger as another force which can induce or intensify firm’s effort to seek external assets (Huber, 1991; Winter, 2000; Kim, 1997). Triggers refer to the activities or special events which stimulate firms to make investment in building up absorptive capacity (Zahra and George, 2002). There are several possible triggers that firms might face including both internal and external triggers. We only found a trigger in China 1, in which its previous failed performance successfully stimulated China 1 to intensify its effort in seeking external assets. In this case, we found that previous market failure acted as the trigger affecting the leader’s attitude towards devoting resources. As suggested by respondents, China 1 became much more careful and conscious since it had experienced failures; the leader of the company required its managers to make thorough preparations and efforts before and during the acquisition.

In addition to this, our findings also suggest case companies’ understanding about difficulties and challenges influence firms’ effort level. Petersen et al. (2008) suggested that the perceived knowledge gap would influence entrant firms’ resources commitment to enter the foreign markets. We found that in the case of China 4, it underestimated the difficulties of transferring its business practices across borders, therefore did not make efforts to acquire the strategic benefits it aimed for. Furthermore, we found that firms’ poor understanding about difficulties and challenges affected leaders’ attitude towards making efforts. The leader of the case company was observed being overconfident about its knowledge base in relation to acquiring the assets, and thus forming a wrong perception about the challenges. When the leader is overconfident about its knowledge base, the leader would not show a strong determination in devoting resources to making efforts (see China 4 for an illustration). Therefore, we see firms’ understanding about difficulties of acquiring the assets influenced the effort made, also influenced the leader’s attitude towards devoting resources.
From the above analysis, we can see that intensity of effort is influenced by triggers, firms’ understanding about difficulties and challenges of acquiring the target assets, and what is more the leader’s attitude towards making efforts. Among these factors, we found that both understanding about difficulties and triggers influence the leaders’ attitude towards change. Thus, we suggest that the leader’s attitude towards change is the key determinant influencing firms to devote resources and make efforts for acquisition.

Taken together, we get the second proposition:

**10.2.2 Proposition 2**

The ability to acquire the assets is the second component of absorptive capacity, which influences the outcome of strategic asset-seeking internationalization. Effort made in acquisition serves as an opportunity for firms to devote resources and narrow the distance with targets. The leaders’ attitude towards devoting resources is the key determinant. In firms that encountered triggers and have a good understanding about the assets, leaders are more likely to form a right attitudes towards making efforts.

Based on the above factors, a figure can be drawn below:

**Figure 10.2: Factors influencing firms to make efforts**
10.2.3 Ability to retain acquired assets

In our cross case analysis chapter, we have introduced a new emerged element, i.e. issues relating to retaining the acquired assets. We found that what determines the success of the SAS events is not just being able to target the right assets (i.e. identification) and make efforts to acquire them (acquisition), but also to be able to retain the valuable assets well so as to allow firms to assimilate and transform the acquired assets through organizational mechanisms (Lane et al., 2006). We argue that case firms’ ability to retain the assets closely influences the outcome of their SAS events. Two streams of evidence from our case studies clearly supported this:

i. Case firm initially acquired assets which can be valuable but gave up before the assets could be formally assimilated or transformed.

ii. Case firm gave up the opportunity to acquire target valuable assets due to the challenges and difficulties it expected in retaining these assets.

The ability to retain has been found when case firms were pursuing international human resources, marketing channels, and R&D related assets. In order to take advantage of the assets, case firms need to have the necessary ability to retain the assets in the first place before they can be formally assimilated, i.e. ability to retain. Otherwise, the assets, even though acquired and valuable, are beyond case firms’ ability to retain. However, the issue of retaining the acquired assets in firms’ SAS activities has not been addressed in extant literature. Past studies only mentioned the issue of employee retention in the field of knowledge preservation and knowledge transfer in the post-acquisition process (Ranft and Lord, 2000). They suggested that employee retention after M&A is critical for knowledge preservation and transfer. Based on this study’s observation, we found that for an effective SAS activity, to preserve the acquired assets is important not just in terms of acquired employees, but also in terms of marketing channels and R&D related assets. Thus, we argue that it is necessary to add this new dimension of absorptive capacity to our framework in order to understand the SAS by EMNEs.
This can be explained by the fact that EMNEs are generally considered to have an inferior absorptive capacity level than their western counterparts, therefore it is reasonable to presume that they may encounter more difficulties and face more challenges than western counterparts in SAS events. Thus, to identify it as a new element composing firms’ absorptive capacity is of great significance to guide EMNEs’ SAS events. This has also been confirmed by a respondent from China 4 when commenting on the abandoning of acquired marketing channels and R&D human resources in its two failed SAS events.

‘The process has a high demand on time and capital. We had to be patient and give enough time to keep these assets, but we did not have time to integrate and absorb the newly acquired assets…. if we could have utilized these assets, it would be totally different today.’

Findings suggest that the difficulties case companies encountered and potential challenges they anticipated in retaining the acquired assets can be categorized into two aspects, i.e. financial aspect and managerial aspect. Firms with poor financial status and weak management capability in managing culture conflict and channel relationships are observed to encounter retaining problems. We therefore suggest that the ability to retain the assets actually reflects firms’ financial foundation and management capability.

**With respect to financial aspect**, to retain acquired assets from western MNEs places a high requirement on case companies’ financial status. Our findings suggest that financial inadequacy is the direct reason for case companies to abandon the acquired assets. This can be clearly illustrated by China 4. Due to its financial inadequacy, it abandoned the whole R&D department acquired from French 2 in its key event 3. Similarly, in its key event 2, it abandoned marketing channels.

This is particularly important to Chinese firms. For one thing, the available targets for
Chinese firms to acquire are mainly constrained to the loss-making sector or out-of-dated business (Buckley et al., 2007). As suggested by Respondent 1 (assistant of vice CEO) from China 4, ‘if French 1 was not a loss-making business, it wouldn’t let us acquire it.’ What is more, these assets although not promising and insolvent are sold at affordable prices. However, the cost involved in the whole event can be much higher than the price Chinese firms initially paid. As commented by an external respondent

‘To acquire these targets with debts required the case company to first pay the debt. Then the operating cost of these assets such as R&D department, foreign personnel, and marketing channels can be much higher than their expectation.’

Similarly, the respondent commented on China 4’s key events 2 & 3, in which it failed to retain the acquired valuable assets and pointed out,

‘Before we had time to think about how to utilize and take advantage of the acquired assets, we had to spend our resources to cope with the huge loss. Thus, we cut down the high cost sectors, including acquired foreign human resources, marketing channels and even the whole R&D department.’

Thus, as commented by an external respondent,

‘A very important implication of this is that firms, although they may be able to afford the payment to buy targeted assets or units, should also consider the implicitly hidden expenses generated in order to retain the assets they gained.’

With respect to the hidden expenses, even in companies which did not encounter retaining problems, they also expressed their concern about financial support. Respondent from China 1 commented,

‘Although we have made thorough preparation for lowering
operating cost and providing a large amount of capital to preserve these assets, we still have not expected the process to be so long and hard. .....We don’t know if the board would agree to continue investing capital on retaining these acquired assets.’

**In reference to the managerial aspect**, our findings suggest that the issue of retaining comes from case firms’ generally weak management capabilities, for example in managing marketing channels and culture differences. In this regard, Buckley et al. (2008) argued that ‘many Chinese MNEs have acquired intangible and complementary assets that they have little to no prior experience of managing, this raises a question concerning the ability of some Chinese firms to generate profits from post-acquired businesses, (P740)’.

Since they lack similar experience in managing culture differences and marketing channels (Globerman and Shapiro, 2009), when they do not have experience in this aspect, it would be difficult for the company to operate. With respect to this, a respondent specifically argued that ‘for us, the acquisition is not just a matter of financial capital but also whether we can manage the assets well.’ For example, in the case of retaining the marketing channels, Respondent 2 (former senior manager of Lenovo) commented that,

‘It is very different between the domestic market and overseas market in terms of marketing channels. In the domestic market, we’ve got many channels, however, in advanced markets, there is only one best buy or on line systems. The choices are few and the competition is very fierce in advanced markets.’

In terms of culture barriers between western MNEs and Chinese corporations, these have been found as a critical factor for inhibiting firms’ retaining the acquired assets. A respondent in China 1 commented,
‘We (China 1 and US 1) all have strong culture influences, how to let them accept and respect our culture is critical to keep these employees.’

Similarly, a respondent in China 3 also observed,

‘The communication problems in terms of language, culture, mind-sets and management style all need to be taken into considerations when we make our decisions on whether to take the deal (to acquire US 3).’

Apart from these, a further cross case analysis in Chapter 9 on the differences and similarities between China 4, which actually encountered severe retaining problems, and the other three cases which retained acquired assets in their SAS events, showed that the ability to retain the acquired assets is related to firms’ identification ability and effort made in acquisition.

In China 1, 2 & 3, case companies dealt with the retaining problems in the identification process and acquisition process. In the case of China 1, it identified the difficulties to retain an international management team in the identification process, and made thorough efforts by taking a series of measures to cut down operational cost in the acquisition process. In China 2 & 3, they identified potential challenges of retaining the assets and therefore give up the events.

A respondent from China 1 illustrated how China 1 tackles the potential retaining problems in the identification and acquisition process,

‘We knew that the operating cost in US 1’s PC unit would be high, the high quality management team would cost us a lot. Thus, how we could reduce costs and provide sufficient capital needed to keep these assets was our main concern. We did a lot to make sure we could maintain the normal operation of the acquired unit.’
By contrast, China 4 showed poor identification ability and what is more it did not take the chance of making thorough efforts to build up the knowledge gap. Therefore, China 4 failed to retain core valuable assets.

My finding therefore suggests that the ability to retain is a dimension related to both identification and acquisition. The identification process plays an important role for firms to form an accurate expectation not just to assess whether the assets are valuable. But also there are difficulties and challenges coupled with gaining these assets. This can be supported by the argument that identification ability is largely a function of prior knowledge base, thus firms with sufficient prior knowledge base would have a good understanding about the target. The deeper the understanding is, the more accurate the expectation about the target will be. Regarding the effort made in acquisition, as we discussed, it acts as a bumper that allows case firms to build up requisite capabilities. When case companies identified the retaining problems, it was helpful for them to take measurements to tackle the potential problems in this process.

10.2.3.1 Proposition

Taken together, we can obtain the following proposition:

Proposition 3

The ability to retain is critical in that it is the precondition for acquired assets to be formally assimilated. It reflects firms’ financial condition and managerial capabilities. It is related to both identification and effort made for acquisition.

Therefore, we can get the following figure:
10.3 The effectiveness of asset-seeking through internationalization in terms of building up Chinese MNEs’ capabilities

With the discussion on absorptive capacity as the construct underlying firms’ SAS outcomes, we can better understand whether SAS investments have been generally effective in enabling case firms to gain assets through internationalization.

10.3.1 The effectiveness of SAS activities for gaining targeted assets

Our findings confirm that case companies are expecting a wide range of benefits through SAS events such as technology related assets, human resources, marketing channel and international reputations (Taylor, 2002; Deng, 2003; Zhang, 2003; Warner, 2004). Regarding the results of these SAS events, our interpretation of four case studies indicates that case companies that targeted international reputation in their SAS events generally have successfully gained reputation; whereas, case companies that target technological assets, foreign brand and international human management teams and marketing channels are less effective (see Table 9.1). That is to say the effectiveness of
these four case companies to gain substantive assets is limited. This challenged extant studies which viewed strategic asset-seeking outward investment as an effective means for latecomers to gain assets and catch up with advanced MNEs (Luo et al., 2007; Deng, 2007, 2009; Child and Rodrigues, 2005).

The result is not totally beyond our expectation. Literature has suggested that the knowledge that firms can gain from external sources is linked with their absorptive capacity level (Mangematin and Nesta, 1999). In their study, Mangematin and Nesta (1999) argued that firms with a high absorptive capacity can assimilate knowledge in a diversified nature, including both fundamental and applied, tacit and codified knowledge; whereas, firms with a low absorptive capacity have difficulties when absorbing tacit and fundamental knowledge. Strategic assets are mainly intangible proprietary assets (Deng, 2009), which have the characteristic of being firm-specific and hard-to-replicate. These assets although they are valuable sources for firms’ competitive advantages, they are difficult to be gained through external sources. The casual ambiguity also hinders firms to learn the valuable assets from western companies (King, 2007). Thus, following the literature, to gain strategic assets has a high requirement on firms’ absorptive capacity. Therefore, for case companies to be able to obtain and benefit from these substantive assets, there is a high requirement on their absorptive capacity level.

Our findings agree with this. Moreover, in our case studies, we see the impact of case companies’ absorptive capacity in dimensions of identification, acquisition and retaining acquired assets on their SAS outcome in terms of what assets can be gained eventually.

In the events which case companies are seeking for brand assets, we see the impact of identification ability and retaining ability on case firms’ SAS outcome. Among the events that are targeting at gaining foreign brands, China 2 and China 3 did not fulfil their brand acquisition events; they gave up the deal as they identified the potential
difficulties they might encounter in retaining the assets. China 4’s poor identification ability led to it targeting an unpopular brand. Meanwhile, this is also recognised by the fact that it targeted companies that were insolvent, the brand assets advantage might have already diminished. We have seen that respondents commented that the brand assets China 4 targeted were no better than its own brand.

Similarly, in terms of the marketing channels, among the cases that expected to gain marketing channels through SAS events, only China 3 had successfully gained marketing channels. In the case of China 1, it aimed to gain the market channels from US 1 so as to get suppliers from the mainstream US market, however, it had not recognized that the PC unit it acquired was a purely product department without marketing channels. In the case of China 4, it originally acquired marketing channels however abandoned them due to its poor retaining ability. This is germane to their identification ability and retaining ability. This further indicated that as social complex assets (Amit and Schoemaker, 1993), marketing channels require a high absorptive capacity level.

With respect to international human resources, case firms expected to gain talents in management, marketing and R&D areas. We see efforts made in acquisition and ability to retain influence whether case firms can benefit from human resources. In the case of China 1, it successfully gained an international management team, which is largely due to its thorough efforts made in acquisition and sufficient financial capital to retain the human resources. On the contrary, in the case of China 4, we observed that it abandoned the majority of human resources due to being unable to retain the assets.

With regard to gaining technology related assets, our findings suggest that core and advanced technologies are difficult to be gained by case companies. Despite the fact that the pursuit for technology related assets, especially technology patents, has been the central focus in the studies with regards to strategic asset-seeking, and a large amount of empirical studies have been conducted in discussing firms’ technology
sourcing strategies (Kuemmerle, 1998; Ivarsson and Jonsson, 2003), our findings suggest that core and advanced technologies are difficult for case companies to gain.

Evidence has been provided that in the context of technology seeking, firms with higher R&D capabilities are more likely to benefit from the technology seeking activities (Penner-Hahn and Shaver, 2005). For case companies which are disadvantaged in R&D capabilities, they are more motivated to seek advanced technologies however they face more difficulties to identify and gain advanced technology. Thus, our finding is in accordance with Penner-Hahn and Shaver’s finding that for firms to be able to benefit from technology sourcing activities, they need to possess research capabilities underlying that technology. Therefore, as Chinese firms are generally weak in the R&D capabilities, e.g. in the case of China 4, it is understandable that they may gain limited benefits unless they have strong R&D capability (e.g. China 2) in that technology through the SAS event.

By contrast, our results suggest that international reputation is relatively easy to be gained by Chinese firms. Case companies that targeted establishing international reputation all increased their reputation in international markets. According to Deng (2008), Chinese firms are inspired to gain prestige, social support and legitimacy in the market place. For a long time, Chinese firms have been regarded as low price manufacturers without core technologies. The country image hampers the firms’ image in international markets and these firms are believed to be active in less developed countries. However, the best way to demonstrate their reputation level and their competences is to go to advanced markets and cooperate with leading MNEs. An external respondent commented,

‘Through these activities, they tell the world that Chinese companies can be world leading enterprises, and Chinese enterprises can compete with other western companies on the same stage.’

Thus, entering into advanced markets is a quick way to build up their reputation.
10.3.2 Other benefits gained

Apart from the above major assets, our findings also noted that case companies gained other benefits which were not initially targeted.

Table 9.2 showed that case companies also gained benefits in knowledge and experiences of operating in advanced markets, manufacture management and technology, and increase in the employees’ knowledge base.

The finding is important in two ways. Firstly, the result that case companies can more easily gain manufacturing management and production technology implies their corresponding relatively low absorptive capacity. We can interpret the results as evidence to support the influence of absorptive capacity. As case companies do not have a high absorptive capacity, they can only gain benefits which are within their capacity to absorb. For example, these benefits include basic market information and knowledge, which do not require a specific knowledge base to understand, production technology and management abilities in which case companies have a rich prior knowledge base as being manufacturers.

Secondly, the benefit in terms of increasing employees' knowledge base is worth discussing. Literature has suggested that firms can increase their absorptive capacity through investment in R&D, direct involvement in manufacturing process, and through sending personnel for advanced technical training (Cohen and Levinthal, 1990). Through these actions, firms accumulate their knowledge base and therefore build up their absorptive capacity. Meanwhile, literature also stressed individual’s knowledge base to be important to a firm’s collective absorptive capacity. In my study, in the strategic asset-seeking process, firms have been observed to increase their knowledge base through various means. Employee’s mind-sets have been observed as an important benefit and one of the frequently mentioned benefits the case firms gained through strategic asset-seeking activities. Employees’ mind-sets are considered as one of the
aspect of an individual’s knowledge base which in turn comprises an individual’s absorptive capacity (Murovec and Prodan, 2009). My finding suggests that firms changed the individual mind-set through the SAS events. Respondents suggested that through international strategic asset-seeking, they are more internationally orientated, obtain improved language skills, realized the gaps between their company and world leading MNEs and gained new concepts. Thus employees’ knowledge base have been broadened.

Therefore, it can be suggested that apart from gaining strategic assets through internationalization, firms also build up their employees’ knowledge base which enhances firms’ absorptive capacity level.

To sum up, the popularity and importance of internationalization as a means for Chinese leading firms to acquire and gain strategic assets, aims to address their disadvantages and build up their advantages. It is worth noting that the sustained competitive advantage could not be simply bought from external sources due to the nature of it - which are generated from valuable, rare, inimitable and non-substitutable assets. Therefore, the intangible strategic assets which have been considered as important sources - more critical and useful than any other resources - are difficult if not impossible to get through the market. Without a high level of absorptive capacity, the core technologies, the brand building capabilities, the managerial capabilities could not be gained through buying from external sources.

We can understand the case companies’ SAS internationalization outcome from a broader view by employing the Uppsala model. Unlike previous studies that only focus on cross border M&A, our findings also indicate that Chinese firms’ strategic asset-seeking intents are spread in various forms of international activities ranging from strategic alliances with western enterprises, wholly owned subsidiaries in advanced markets, JVs and M&A. According to the Uppsala model, firms enter foreign markets in a gradual process. As their market knowledge and experiences accumulate, firms will
increasingly enter into countries with greater psychic distance and in higher resource commitment modes. Thus, EMNEs with few or no international experiences are considered to possess less adequate market knowledge which would constrain their overseas market expansion.

One of the frequently adopted measurements for firm’s market knowledge is its international experience (Luo and Peng, 1999). We observed that among these cases, China 2&3 had rich international experiences. Before entering into the UK market, China 2 had successfully operated in Russian, Latin American and South African markets. When entering into the UK market, they adopted a relatively low resource commitment entry mode, i.e. strategic alliances. This is in accordance with the Uppsala model in two aspects. China 2 followed a sequence of entering into countries with a short psychic distance in the beginning, and as its market knowledge and experiences increased, it started to enter into countries with greater psychic distance; when it first entered into advanced markets, China 2 took low resource commitment entry modes. In terms of China 3, it has had many knowledge seeking experiences in developed countries. Consequently its knowledge base enables China 3 to invest in developed countries and adopt high resource commitment modes. This is in accordance with the Uppsala model in that firms accumulate market knowledge through their own international operations.

In China 1 and China 4, we observed international processes that are inconsistent with the sequential approach that the Uppsala model addresses. In the case of China 4, its previous internationalization is mainly by means of export to less developed countries, whose psychic distance is within the company’s ability. And China 4 performed well in those markets. However, when it suddenly adopted high resource commitment modes in host countries with greater psychic distance, e.g. acquired a Germany company (key event 1 of China 4), formed a majority JV with French companies and then acquired the JVs (key events 2 & 3 of China 4), it did not follow a gradual approach but jumped stages. Our findings indicate that the high risk entry modes and high commitment that
China 4 conducted have exceeded its market knowledge, consequently have led to the failure of these events. This confirms the Uppsala model that firms should choose internationalization strategies within their market knowledge base.

In the case of China 1, we witnessed that China 1 stepped from no international experience before to directly being involved in acquiring an MNE from a developed country. According to the Uppsala model, the jump in terms of both market choice and entry mode choice should lead to failure of the event as the case of China 4. However, China 1’s SAS event is satisfactory. By comparing China 1 and China 4, we found that: first, China 1 had prior business ties with the target; second, China 1 had been actively taking actions to enrich and extend its market knowledge through its business networks; third, China 1 deliberately acquired specific knowledge by focused searching and employed consulting companies. By doing this, it helped China 1 to gain market knowledge. Our findings contradict the Uppsala model and suggest that firms can acquire market knowledge from sources other than their own international operating experience (Di Maggio and Powell, 1983; Björkman, 1990; Huber, 1991; Haunschild and Miner, 1997). This finding was confirmed by literature. Studies argue that firms can gain market knowledge through their social capital (Arenius, 2005), which is defined as the amount and quality of external network the firm possesses, by conducting a focused search for new information (Huber, 1991), and other short-cuts (Barkema and Vermeulen, 1998) rather than through experience from their own activities. Although China 1 has not been directly involved in internationalization activities, it compensates for its low international experiences by gaining market knowledge from other channels. Thus, gaining knowledge from multiple sources plays a moderate role in supporting China 1’s stage-jumping activity, i.e. the SAS event in question.

We observed that China 4 was determined to acquire Germany 1 due to its leader’s over ambition, however it ended up closing the business; by contrast, China 2 and China 3, who also encountered similar opportunities to acquire western MNEs, were able to
make rational decisions to give up the opportunity through a careful consideration and analysis. According to the Uppsala model, these two different actions towards international strategy reflect firms’ different perception towards market uncertainty, which is a reflection of firms’ market knowledge base. Apart from firms’ knowledge base, the leader’s over ambition can also influence firm’s perception about market uncertainty. Our finding confirmed the statement in the Uppsala model that it will increase the risks of large step internationalization when firms did not possess adequate knowledge base.

On the one hand, our finding confirms the Uppsala model’s incremental process in that firms’ market knowledge constrains its internationalization strategic choices. Firms should invest in the appropriate market via a proper entry mode which falls within its own knowledge base. On the other hand, our finding also suggests that market knowledge can be gained through other sources, e.g. firms’ networks, focused searching and other sources besides its own international operation experiences. Deliberate acquiring of knowledge could act as a moderate factor that compensates for their inadequate international experiences in stage-jumping activities. However, the stage-jumping internationalization from firms that neither possess adequate knowledge and experiences, nor actively undertake other sources of learning, is considered to be less cautious and tends to involve more risks and difficulties beyond their own absorptive capacity.

**10.3.3 Propositions**

Taken together we propose that,

**Proposition 4**

The effectiveness of strategic asset-seeking investment is limited in terms of gaining substantive assets and capabilities; it is helpful for EMNEs to build up its reputation in international markets. SAS in advanced countries is a means for EMNEs to increase
employees’ knowledge base.

**Proposition 5:**
For an effective SAS event, a high absorptive capacity is required to identify the appropriateness of the target, acquire the assets smoothly and retain the assets in the sense that the assets can be preserved before formal assimilation through organizational mechanisms.

10.4 An integrated framework

In the above sections, we discussed three dimensions of absorptive capacity in the process of SAS events separately. All of these three dimensions are closely linked to the results of SAS events. In Chapter 3, we developed a framework suggesting the relationship between firms’ absorptive capacity in the dimensions of identification and acquisition and the outcome of SAS events. In this section, we generate a framework reflecting the findings of our study.

Through empirical studies, a sequential process of absorptive capacity dimensions in case companies’ SAS events has been found in the exploratory learning process (i.e. before firms assimilate or transform the assets) (see Figure 10.4). A new element has been highlighted, i.e. firms may target valuable assets and acquire the assets, however they may not be able to retain the assets (examples are China 4’s key events 2 & 3). When case firms failed to retain the assets, they could not benefit from assimilating or transforming the assets, let alone exploiting them. Thus, compared with the conceptual framework presented in Chapter 3, our framework highlights a new dimension, i.e. the ability to retain. We label it as the dimension of retaining acquired assets.

Therefore, based on the empirical study, our framework suggests that firms generally go through the following stages: identifying the value of externally sourced assets, bringing the assets into the firm’s boundary and retaining the assets for assimilation or transformation.
Identification is the first element and also the fundamental element influencing SAS outcomes. If firms identify totally useless assets in the first place, the whole SAS events will be a failure. Identification requires firms to identify the difficulties and challenges coupled with the benefits, and also the potential challenges they might face. The better firms are able to identify the assets, the better they will take the right action in terms of making efforts to acquire the assets, and retain the acquired assets well. Therefore, identification ability is critical for EMNEs not just in that it pertains to firms’ ability to recognize the valuable external assets but also in that firms can identify the potential difficulties and challenges associated with gaining these assets.

With respect to acquisition process, we suggested that the effort made in the acquisition process is critical for firms to build up its requisite capabilities so as to smooth the acquisition process.

We found that acquiring the targeted assets does not necessarily lead to assimilation. In terms of the new emerged element, i.e. the ability to retain the acquired assets, we suggest that retaining the acquired valuable assets is the precondition for assimilation; retaining the acquired assets is a dimension relevant to identification and acquisition. If firms can identify the potential difficulties in terms of retaining the valuable assets in the identification process, and make efforts in the acquisition process, the chances of losing the acquired assets are small.
Figure 10.4: A general route of firm’s SAS events in the process before formal assimilation

- **Identification** (Evaluate externally targeted assets)
  - WHEN Target completely wrong assets
    - Failure of the event

- **Acquisition** (Effort made to bring the assets into the firm’s boundary)
  - WHEN Cannot retain the acquired assets
    - Lose the acquired assets

- **Retaining acquired assets** (Retain the assets so as to allow for assimilation or transformation)
  - Go to Assimilation or transformation process

Note: Dotted box indicates the part beyond the scope of this study.
Chapter 11

CONCLUSION

11.1 Introduction

In this final chapter, we will assemble the findings of this study according to our research question and objectives. Then the contribution to extant literature will be identified. We will describe our contribution to two main streams of literature, i.e. international business literature on EMNEs’ SAS events and literature on absorptive capacity. The limitations of this study will be identified, followed by the implications for managers and policy makers. Finally future research areas will be recommended.

11.2 Summary of thesis

The overall aim of this study is to explore how absorptive capacity underpins the outcome of EMNEs’ SAS internationalization. Specifically, we attempted to achieve the following objectives:

1: to examine the effectiveness of SAS internationalization events
2: to explore the influence of absorptive capacity in the dimensions of identification and acquisition
3: to synthesise the literature and empirical findings to provide a deeper understanding about absorptive capacity and international SAS.

Through selecting Chinese MNEs as appropriate targets, and conducting four inductive exploratory case studies, we offered initial understandings to the above objectives. With respect to the first objective, the results of the 10 SAS events conducted by four Chinese MNEs show that these companies are aiming for a wide range of assets including technology related assets, human resources, marketing channels, reputation
and so forth. However, our finding also suggested that these SAS events are not effective in terms of gaining substantive assets, rather, it is helpful for case companies to build up international reputation and increase the individual’s knowledge base. Therefore, the effectiveness of SAS events for case companies to build up capabilities and catch up with leading MNEs is limited. The first objective was achieved.

With respect to the second objective, we found that a firm’s absorptive capacity level influenced the outcome of SAS activities. In particular, the firm’s ability to identify influenced whether the firm can target appropriate assets in the first place. When firms cannot recognize the value of external assets in the identification dimension, they would target inappropriate assets, such as totally wrong assets, out-dated assets or assets that are beyond their ability to retain, which would lead to total failure or low effectiveness of their SAS activities accordingly. We found that firms’ prior knowledge base and the congruent leader’s ambition are determining factors of firms’ identification ability. Firms’ high prior knowledge base will facilitate their identification ability. However, when firms do not have sufficient knowledge base but have the leader’s strong ambition, they are inclined to target inappropriate assets. That is to say the congruency between leader’s ambition and prior knowledge base is critical. When firms do not possess sufficient prior knowledge base, the leaders’ high ambitions in terms of gaining assets through SAS internationalization will impede identification ability.

In addition, the efforts made for acquisition, i.e. the second dimension of absorptive capacity, determine whether the firm can smoothly take in the external assets. Firms need to make efforts to take in the external assets when they do not possess sufficient requisite capabilities; this is especially the case to EMNEs as they generally possess fewer firm-specific capabilities. Also the preparation made in the acquisition process would reduce the risks and difficulties in retaining the acquired assets in the ensuing process. If they do not make enough effort they would face difficulties to retain the acquired assets. The level of effort that the firm would like to make is determined by its
leaders’ willingness to devote resources, whether the firm encountered triggers, and the firm’s understanding about assets.

Furthermore, we found a new element labelled as asset retention, which refers to whether a firm can retain the acquired assets before formal assimilation or transformation. We found that the asset retention is the precondition for assimilation to happen, if firms abandon or lose the acquired assets, i.e. fail to retain acquired assets, the effectiveness of the SAS events would largely be reduced since the acquired assets could not be assimilated or transformed fully. The managerial capabilities and financial capabilities are two main factors comprising the firms’ retention ability.

With respect to objective 3, synthesizing existing literature and empirical findings of our study, we enhanced the understanding of absorptive capacity in EMNEs’ SAS internationalization in several ways. We generated an integrated framework that linked different dimensions of absorptive capacity with SAS outcome and highlighted the necessity to employ absorptive capacity to understand EMNEs’ SAS internationalization. These three dimensions of absorptive capacity together influenced the outcome of EMNEs’ SAS internationalization. Moreover, we analysed how different dimensions of absorptive capacity influence the outcome of SAS internationalization. Our study also provided understanding about the determinants of each dimension of absorptive capacity. In this way, our research objectives have been achieved.

11.3 Contribution

We made contributions to existing literature in several ways. The core contribution of this study is that it integrated absorptive capacity into understanding EMNEs’ SAS internationalization. Specifically, we will present them from two aspects, i.e. contribution to international business literature and contribution to literature on absorptive capacity.
11.3.1 Contributions to international business literature

This study made a number of contributions to IB literature. It firstly has provided insights that help to enhance understanding of possible outcomes of international strategic asset-seeking efforts by firms from emerging economies. Extant studies on strategic asset-seeking have been mainly focused on firms from developed economies (Kuemmerle, 1999; Chung and Alcácer, 2002; Berry, 2006). Although internationalization has been claimed as a means for firms to gain assets and build up capabilities, there is a shortage of empirical evidence supporting the effectiveness of SAS internationalization of these firms. Previous studies have not explicitly considered the impact of firm level absorptive capacity on the outcome of SAS internationalization efforts. Clearly consideration of absorptive capacity is particularly relevant in the case of ‘late’ internationalizers with a specifically SAS intent. In particular if such ‘late’ internationalizers resort to methods of expansion such as purchase of existing firms (in part or in whole) in advanced countries, the absorptive capacity of such internationalizers is critical to their success in acquiring the knowledge and related assets they are seeking. Although our study’s findings are based only a limited sample of companies in China, they demonstrate clearly that the effectiveness of SAS internationalization is contingent on a high level of absorptive capacity. Existing research suggests that firms from emerging economies increasingly view internationalization from a ‘springboard perspective’ (Luo and Tung, 2007) whereby ‘catching up’ with world standards of technological and organisational capabilities is often a key driver. In this context our findings make an important contribution by demonstrating the critical role of absorptive capacity in shaping the outcome of emerging economy firms’ internationalization as a part their ‘catching up’ strategies.

The second and related contribution of this study is that it has integrated absorptive capacity into the current IB literature on understanding emerging economic firms’ strategic asset-seeking. Existing studies on strategic asset-seeking outward internationalization by emerging economic firms have been focused on firms’ strategic
needs (Rui and Yip, 2008) and institutional factors (Deng, 2009) without looking at firms’ internal capabilities. As a capability pertaining to gaining knowledge from external sources, absorptive capacity is considered highly relevant to strategic asset-seeking. Through investigation on four case companies, we saw a clear linkage between absorptive capacity and the outcome of strategic asset-seeking activities. Specifically, three dimensions of absorptive capacity - identification, acquisition, and assets retention - underlie firms’ strategic asset-seeking outcome. Therefore, we offer a new perspective to understand emerging economic firms’ internationalization, i.e. from firm’s absorptive capacity. An integrated framework has been developed which demonstrates the linkage between absorptive capacity and the outcome of SAS events. This would provide guidance for future studies on understanding SAS events.

Although it only looked at small samples, this research shed light for other Chinese enterprises that follow SAS internationalization strategy. As increasing numbers of Chinese firms use internationalization as a means for them to gain valuable assets and build up international competitiveness (Child and Rodrigues, 2005; Deng, 2008; Rui and Yip, 2008), this study contributes to literature on Chinese MNEs by clearly demonstrating the impact of absorptive capacity level on firms’ SAS internationalization outcome, and offering considerations on possible factors that underpin Chinese firms’ absorptive capacity level.

Moreover, this study enhanced our understanding about the Uppsala model. The Uppsala model implies the necessity for firms to possess market knowledge to conduct SAS events. Our findings suggested that firms can gain market knowledge from the external network, focused searching and other shortcuts without experiencing it themselves. The market knowledge gained through these channels can moderate firms’ poor international experiences and enable firms to take large steps in internationalization. By paying attention to this point, it can extend the Uppsala model’s attempt to explain EMNEs’ stage-jumping SAS internationalization. In addition, the congruence between leaders’ ambition and firm’s knowledge base as one
of the key factors that influence the outcome of case companies’ SAS events, suggests that firms’ perception on market uncertainty, which is determined by firms’ knowledge and experiences in the Uppsala model (Johanson and Vahlne, 1990), is also heavily affected by leaders’ ambition when EMNEs are concerned. In this way, we can enrich and advance the Uppsala model slightly.

11.3.2 Contributions to absorptive capacity literature

We also enriched the knowledge of absorptive capacity in several ways. Our study provided a theoretical extension on the extant components of absorptive capacity. This is of significance to absorptive capacity literature, as it has responded to the call from current literature stating that most of the extant studies focus on reification rather than theoretically extending the knowledge on absorptive capacity (Lane et al., 2006).

Firstly, we found a new dimension of absorptive capacity, i.e. the asset retention ability and suggested that to be able to retain the acquired assets is the precondition for assets’ assimilation or transformation. Extant literature did not point out the importance of retaining the acquired assets for assimilation and transformation. To recognize and acquire the assets alone does not guarantee the firm can benefit from the external assets. We saw that firms would lose the acquired valuable assets if they had a low ability to retain. The ability to retain is a dimension related to identification and acquisition. It reflects firms’ overall financial capabilities and managerial capabilities. The ability to retain acquired assets is of great significance for firms from emerging economics. In the future, when understanding companies’ SAS internationalization, we should also take consideration of their assets’ retention ability.

Furthermore, we emphasized the separation of identification and acquisition. In line with Todorova and Durisin’s (2007) argument, our finding reinforced the necessity to separate the ability to recognize the assets from the acquisition dimension. The results suggest that, as emerging economic firms, in some cases, firms do not have the ability
to target the right valuable assets. With the highlight on the separation of these two dimensions, it allows researchers to better analyse emerging economic firms’ strategic asset-seeking activities. Since whether or not case companies have a good ability to recognize the value determines the quality of the assets targeted, this would in turn directly influence the results of the activities. Therefore, for emerging MNEs, the ability to recognize the value of external assets is critical. This ability merits special attention and should be treated as a separate dimension when studying strategic asset-seeking by emerging economic firms.

In addition to these, we substantiated the dimension of acquisition. Extant studies only mentioned ‘acquisition’ as one of the dimensions of absorptive capacity, without exploring the richness and details of ‘acquisition’. My study showed that to emerging economic firms, the process of acquisition determines if firms can fully acquire the targeted assets. Intensity of efforts has been found as the main indicator for firms’ ability to acquire. Through making efforts, firms bridge the knowledge gap and build up requisite capabilities to acquire the assets.

Finally, we identified different determinants for the different components. Though the absorptive capacity has multi-dimensions, these dimensions are claimed to be using the same measurements (Matusik and Heeley, 2005). My study found that different components are determined by different elements. This would enable both researchers and managers to better understand absorptive capacity and be targeted when trying to improve particular dimensions of absorptive capacity. With regard to firms’ identification ability, except for firms’ prior knowledge base that has received acknowledgement widely by researchers as a key determinant for firms’ absorptive capacity level, our study pointed out that firms should have a congruent leader’s ambition that can combine with its prior knowledge base so as to target appropriate assets for case companies to absorb.
11.4 Limitations of the study

There are a number of limitations to this study. Firstly, the study is limited by its nature that Chinese firms’ internationalization is still at a preliminary stage, only several large leading Chinese firms are conducting strategic asset-seeking activities. The number of suitable cases undertaking strategic asset-seeking internationalization acts as the natural restriction for this study.

Besides, focusing on a single country context also limited the scope of the study. Future research could consider more cases from other emerging countries, e.g. India, Brazil, Russia, Mexico etc. Guided by the model and propositions developed in this study, it is believed that through undertaking more studies in other companies, this would strengthen the generalization of the model and offer new insights to this issue based on the model.

Moreover, the particular issue that this study addresses is a complex social phenomenon, which is influenced by various factors including not only firms’ internal factors, e.g. absorptive capacity, but also external factors. For example, although in the study we highlighted the importance of the leader’s ambition in influencing firms’ absorptive capacity, the leader’s ambition maybe a function of political factors. The Chinese Government has deliberately and strategically encouraged and organized Chinese enterprises overseas activities (Wang, 2002). Strong Chinese firms are encouraged to participate in global competition and utilize assets and resources in foreign markets (Luo, 2010). This will influence company leaders of SOEs to engage in SAS investment. Therefore, a leader’s ambition may be a result of political pressures. In this study, we have neither taken these factors in account to elaborate EMNEs’ SAS internationalization, nor addressed the inherent effect of these context-related factors on different dimensions and components of absorptive capacity. We acknowledge that this pitfall undermines our attempt to provide a holistic understanding about this issue. Future research should address these factors in order to achieve a better understanding.
We recognize that there are several major methodological limitations.

1. The interview respondents were selected through personal network. Although theoretical criteria have been applied to screen and select within those people that the researcher could access, there are chances that more suitable informants were not included. We acknowledge that this could lead to a sample bias in that interviews were conducted with those who were accessible and would cooperate (Webb et al., 1966), and this could negatively impact the data quality.

2. The information provided by respondents is the main source of data underlying this research. Interviewer-induced bias could affect respondents’ replies (Mitchell, 1993). In addition, the retrospective data might be biased due to various factors introduced by interviewees (Glick et al., 1990). Appropriate techniques have been practiced to reduce this type of bias. However, we acknowledge that biases inherent in retrospective accounts cannot be eliminated.

3. The data was analyzed according to the interviewer’s, (who is the also researcher), own judgment. The researcher’s interpretation of data is the most creative and distinguished element that differentiates qualitative study from quantitative study. Yet the limitation of the interviewer’s knowledge, opinions, perceptions, and experiences would influence the interpretation, which leads to bias. Justification has been provided to explain the choice between manual coding and software aided coding. Appropriate techniques, such as establishing a special folder for each case company to keep a clear chain of evidence, were employed to try to reduce bias. However, we acknowledge the potential biases which may arise from manual coding, and which might weaken the reliability of the research in the data analysis process.
11.5 Managerial implications

11.5.1 For decision makers and managers

This study is of great significance to provide practical guidance for firms that have already or are planning to undertake strategic asset-seeking activities. This study unveils what pioneer SAS investors can actually gain, and the underlying factors which influence the outcome of SAS events. Thus, it helps firms form a clear expectation about strategic asset-seeking through internationalization and also provides guidance for Chinese firms and other emerging economic firms to make rational decisions in terms of whether to choose internationalization to initiate gap filling, and how to make effective efforts in order to achieve a high level of success. Chinese enterprises should not be over-passionate about going abroad to take advantage of foreign assets in order to build up their capabilities.

What is more important is that this study offers success and failure factors that determine the results of strategic asset-seeking through internationalization. For successful strategic asset-seeking to happen, EMNEs need to firstly build up their absorptive capacity in terms of abilities to identify, acquire and retain the targeted assets, before engaging in SAS internationalization activities. Managers need to be familiar with the targeted assets or the given company in the first place. For Chinese firms that have an intent to undertake strategic asset-seeking activities through internationalization, it is of great help for them to understand the targets if they have direct interaction with the prospective companies beforehand. For Chinese firms that are considered to be weak in their prior knowledge base, this can be compensated by thorough investigation beforehand, in my study mainly in the form of resorting to consulting companies. Another helpful implication is that successful firms take advantages of various channels to gather information, e.g. in the case of China 2 it gained information about international markets from overseas Chinese embassies through establishing networks. Therefore, when firms decide to initiate strategic
asset-seeking activities, thorough preparation will be of great help for them to take full advantage of the opportunities and gain valuable assets.

This study also reveals that successful strategic asset-seeking puts a high requirement on firms’ financial conditions. The results of my study remind the managers that the capital spent on making efforts to acquire the targeted assets is a large amount of capital, including not just the capital spent to purchase the assets but also the capital to retain them. An implication from this is that decision makers of the company should take into consideration at least these two types of cost when deciding whether or not to initiate the SAS activities. Besides, the acquisition also requires a high commitment of resources apart from capital. Successful companies have been found to make long term preparations. This strengthens their absorptive capacity, however, it can be time and resources consuming. A very important implication for decision makers is therefore to be aware that although they may be able to afford the payment to buy assets or even companies, they should also consider the implicitly hidden expenses in terms of capital and other resource generated in order to retain the assets they gained.

Another issue worth mentioning is that lack of talents with international experiences is a big weakness that Chinese firms need to tackle. My study shows that for firms that intend to undertake SAS internationalization activities, the possession of specialist talents is a crucial factor to enable them to aim for appropriate targets. Therefore, managers should recruit or cultivate these specialist talents beforehand.

11.5.2 For policy makers

Internationalization is a good means for Chinese firms to engage in international competition and grow stronger quickly; although the SAS activities may not be as effective as they expected, the employee’s mind-sets and horizons have been broadened. The change in cognition would certainly be beneficial and accelerate firms to make
improvements purposefully in the future. Thus, the government should implement suitable policies to support and facilitate the SAS activities by EMNEs. This study unveiled the process of strategic asset-seeking and identified factors that influence the effectiveness of the results. Therefore, it provides insightful guidance to help policy makers to make policies which are targeted and effectively. In reference to the Chinese government, more substantive support should be given to improve Chinese MNEs’ outcome of SAS activities. Some assets have been abandoned due to lack of capital to support them; this is especially relevant where the human resources and marketing channels are concerned. One of the implications of the study to policy makers is that the process makes a high demand on firms’ capital. If the Chinese government can provide favourable financial policy to support firms to sustain the assets for a longer time, firms may benefit more from the process. In addition, although it has been discussed by many studies about the big western and oriental culture differences, we still saw that unfamiliarity with western culture impeded Chinese MNEs to perform effectively in asset-seeking activities. Therefore, one possible measure that the government can take is to establish special organizations to offer basic cultural knowledge to Chinese firms before they go abroad. Overseas Chinese embassies should also take part in helping Chinese firms’ strategic asset-seeking through internationalization. They could act as information gatherers to help firms learn more about the targeted assets or company, local customs and regulations. These would help increase firms’ knowledge pool and reduce uncertainties about their actions.

11.6 Future research area

As a pioneer work studying the outcome of strategic asset-seeking activities and the underlying factors, this study offers a broad range of future research interest.

Future research can look into the results of the strategic asset-seeking activities and factors influencing the results in different countries. It would be interesting to conduct a
cross-country study between firms from developing countries and firms from
developed countries. It would help us to better understand the factors that contribute to
the results of strategic asset-seeking through internationalization. It might provide new
insights on how the different levels of absorptive capacity between western MNEs and
EMNEs underlie the strategic asset-seeking activities respectively. Besides, a
comparison between large leading Chinese firms that undertake strategic asset-seeking
internationalization activities and those that still take market-seeking as their main
motivation in internationalization could be conducted. This would provide an
understanding of the different capabilities and factors that lead to different strategic
choices. In addition, the propositions and models generated from this study can be
tested by applying them to a larger population so as to improve and strengthen the
generalization of the results.

Secondly, our study has been focused on the inter-organizational level or the external
absorptive capacity, i.e. identification and acquisition, future research could go beyond
the inter-organizational to explore the intra-organizational level or the internal
absorptive capacity, i.e. assimilation, transformation and exploitation. It would extend
this study and provide a holistic picture about strategic asset-seeking through
internationalization. Questions like ‘whether firms are able to assimilate these assets’,
‘can they combine the acquired assets with their own’, ‘can they transform it to
commercial ends’ are all worth exploring. In the future, a longitudinal study would be a
good choice to address an analysis of the whole chain from identification to
exploitation. Moreover, in this study, we only substantiated two dimensions of
absorptive capacity. Zahra and George (2002) emphasized that future study should
focus more on realized absorptive capacity, as firms may have the ability to acquire the
assets however do not have the ability to transform and exploit the assets to commercial
ends. Thus, future studies could extend to explore the determinants of other
components. This would also give firms more detailed practical advice.
References


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Appendix A

INTERVIEW SCHEDULE

1: General background of the company

• The characteristics of the industry
• The characteristics of the domestic market
• The company’s general information
• The company’s position in domestic market and international market

2: General information about its internationalization history

• When did the company become involved in international activities? Which kinds of international activities has the company been involved in? The degree and diversity? What are the results of these internationalization activities? What benefits and lessons has the company got through these international involvements? What influence does it have on its strategic asset seeking strategies, and how?
• What international expansion strategies have the firm adopted with an aim of acquiring strategic assets? What assets did it generally intend to gain? What were the general outcomes? What factors drive the firm to go abroad to seek these assets?

3: Detailed information about typical strategic asset-seeking internationalization events: Under each typical strategic assets-seeking event

• Under what circumstances did the firm decide to conduct this SAS event?
• What assets did it seek? Why did it target those assets? What have been gained actually? Would it describe the event as a successful one or failed one? Does the strategy fulfill their objectives? Why?
• What factors played a key role in the process?
• Did it target the right assets? What factors encourage or discourage it to target the right assets?
• Were the assets successfully acquired before assimilation? Was it easy for the company to take in the assets it targeted? Did the company make any efforts? What efforts did it make? How would it describe the result? What factors influence it to make efforts?
• What is the role of the leader in the process of firm’s international strategic asset seeking through international expansion? What is the leader’s perception towards internationalization, outward FDI, inward FDI, strategic assets and strategic asset seeking through international expansion? How do leader’s perception and capabilities influence the firms’ strategic asset seeking strategies the strategic choice of strategic asset seeking, and the process of the strategic asset seeking?
• What were the reasons for success and failure in this event?
• Any obstacles the firm encountered? Did it overcome and how? Other important factors?
Appendix B

An Example of Initial Templates for One Event

Company background
- Main business activities
- Company Size
- Internationalization history

Under each event

Outcome of Strategic assets
- Strategic assets it aimed for
  - Technology related assets
  - Human resources
  - Marketing channels
  - Brand assets
  - Reputation
- What have been gained actually
  - Right: valuable assets
  - Wrong: useless assets

Underpinning firm-specific factors
- Identification ability
  - Whether it targeted the right assets
  - Underpinning factors for a good identification ability or a poor identification ability

- Acquisition ability
  - Whether it brought in the assets smoothly into firm’s boundary
  - Underpinning factors
An Example of Final Templates for One Event

Company background
- Main business activities
- Company Size
- Internationalization history

Under each event

What strategic assets were targeted?
- Technology related assets
- Human resources
- Marketing channels
- Brand assets
- Reputation

Outcome of the ‘event’ : What has been gained?
- Valuable assets; Outdated low value assets; ‘wrong assets’; ‘abandoned’ assets?
- Other benefits: Employee’s mind-set; Manufacturing technology; Production Management?

Underpinning factors explaining the outcome of the event
- Underpinning factors for a ‘high’ or ‘low’ identification ability.
  Knowledge base
  Leaders’ influence / ambition
- Underpinning factors for whether the assets were brought smoothly into firm’s boundary
  Intensity of effort
  Possession of requisite capabilities

Newly emerged factor:

Retaining the acquired assets: Whether acquired assets have been retained
- Financial issues
- Managerial issues
## Appendix C

An illustration of data coding matrix of key constructs

### China 1

<table>
<thead>
<tr>
<th>Key construct</th>
<th>Replies of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Identification ability:</strong></td>
<td><strong>Positive</strong></td>
</tr>
<tr>
<td>Generally high</td>
<td>China 1 had correctly identified the value of target firm</td>
</tr>
<tr>
<td></td>
<td>(R2,R3,External R investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Best choice for China 1 to fulfill internationalization strategy</td>
</tr>
<tr>
<td></td>
<td>(R1,R3,R4,R6)</td>
</tr>
<tr>
<td></td>
<td>US 1 contains assets which are of high quality</td>
</tr>
<tr>
<td></td>
<td>(R3,R4,R5,External Senior financial journalist, Investment banking analyst, university scholar)</td>
</tr>
<tr>
<td>Negative</td>
<td>Failed to have a correct assessment on marketing channels</td>
</tr>
<tr>
<td></td>
<td>(R1, external respondent university scholar)</td>
</tr>
<tr>
<td><strong>Underlying factors</strong></td>
<td><strong>Shared knowledge base</strong></td>
</tr>
<tr>
<td></td>
<td>similar business concepts, common views ,similar understanding about PC market</td>
</tr>
<tr>
<td></td>
<td>( R1, R3, R6)</td>
</tr>
<tr>
<td></td>
<td><strong>Prior ties with US 1</strong></td>
</tr>
<tr>
<td></td>
<td>Regarded US 1 as the model business for it to emulate</td>
</tr>
<tr>
<td></td>
<td>(R2,R4,R6, external investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Learned from US 1 through Bench marking, treat it as teacher</td>
</tr>
<tr>
<td></td>
<td>(R1,R3,R4,R5)</td>
</tr>
<tr>
<td></td>
<td>Prior Business relationship: worked as an agent to sell US 1’s PCs</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R3, R5,R6 External university scholar, investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td><strong>Thorough investigation prior to acquisition</strong></td>
</tr>
<tr>
<td></td>
<td>Formed negotiation team</td>
</tr>
<tr>
<td></td>
<td>(R1,R3,R6)</td>
</tr>
<tr>
<td></td>
<td>Actively examined the value of the assets embodied</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R3, R4,R6, external respondent investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Actively examined the difficulties coupled with the assets</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R4,R5,external respondent investment banking analyst)</td>
</tr>
<tr>
<td>The effort made in acquisition: Thorough efforts made</td>
<td><strong>Positive:</strong> research and analysis before acquisition was very thorough Acquisition process went on 1 year (R1, R4, external respondent senior journalist) More than 100 managers were involved (R1, R3) Established more than 20 groups (R1, R2) Established teams to deal with particular issues (R3, R4, R5, R6, external respondent university scholar) Detailed list of problems and measures to solve potential problems (R1, R2, R3, R6) External professional experts were invited—consulting companies (R1, R2, R4, R5, external respondent investment banking analyst, senior journalist, government official)</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Negative:</strong></td>
<td><strong>Good understanding about the difficulties</strong> It was a matter of whether China 1 can survive (R1, R3, R4, R5, R6) Unusual size differences (R1, R2, R3, R4, R5, R6) Culture management difficulties they faced (R1, R2, R3, R6) <strong>Previous failure experience in diversification strategy</strong> Failed diversification strategy gave China 1 a big hit (R1, R6, external respondents senior journalist,) It motivated China 1 to be very cautious in its subsequent strategic choices (R1, R2, R6, external respondent senior journalist) <strong>Leaders’ attitude</strong> A key element which drove the firm to invest in human resources and research and investigation. (R1, R3, R6 external respondent investment banking analyst) Leader’s role in devoting resources and decision making in general (R2, R4, R5, R6, external respondent university scholar) Leader attached great importance to devoting resources in this event (R1, R2, R3, R4, R5, R6, external respondent senior journalist)</td>
</tr>
</tbody>
</table>
# China 2

## KEY EVENT 1

<table>
<thead>
<tr>
<th>Key construct</th>
<th>Replies of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification ability: High</td>
<td>The event successfully met China 2’s strategic intent. (R1,R2, R4,R5,R7, external respondent investment banking analyst)</td>
</tr>
</tbody>
</table>
| **Underlying factors** | **Rich international knowledge seeking experience**
Had many cooperation experiences with world leading MNEs (R 1, R2,R3,R4,external respondent university scholar)
Had rich understanding of how to learn market knowledge and regulations when entering into a new market. ( R 1,R2,R4,R7, )
Established sales representatives in UK to collected market information of UK. (R1,R3,R5,External respondent university scholar) |
| The effort made in acquisition: Thorough efforts made | Spent two years to meet UK1’s requirements so as to get onto UK 1’s shortlist. (R1,R4,R7,R8)
Employed IBM to restructure its management system (R1,R2,R4, R6,external respondent investment bank analyst)
Established special teams to work on the weaknesses (R1,R5,R6)
Employed two key people familiar with UK1 and UK telecom market (R1, R2,R3) |
| Underlying factors | **Leaders’ attitude**
Viewed the event as a strategic battle that they must win. (R3,R4,R6,R7 )
Very determined to devote capital and resources. (R1,R2, R5,R8) |

## KEY EVENT 2

<table>
<thead>
<tr>
<th>Key construct</th>
<th>Replies of respondents</th>
</tr>
</thead>
</table>
| Identification ability: High | UK 2 is an appropriate target (external respondent investment banking analyst, university scholar)
UK 2 can build up China 2’s reputation, strengthen China2’s technology position in advanced markets. (R1,R2,R3,R4,R5,R6,R7,R8,external respondent government official). |
| **Underlying factors** | Identified the promising 3G technology market. (R1,R2,external investment banking analyst)
Constant high investment in R&D, international R&D centres world wide |
<table>
<thead>
<tr>
<th>Identification ability</th>
<th>Underlying factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>The effort made in Acquisition</td>
</tr>
<tr>
<td></td>
<td>Made preparations to pass UK2’s tests.</td>
</tr>
<tr>
<td></td>
<td>(R1,R3,R5,R6,R7, external respondent investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Established a special team to communicate with UK 2.</td>
</tr>
<tr>
<td></td>
<td>(R1,R2, R3,R4)</td>
</tr>
<tr>
<td></td>
<td>Underlying factors</td>
</tr>
<tr>
<td></td>
<td>Had pre-developed requisite capabilities that facilitate China 2 to pass all the tests in order to be able to cooperate with UK 2.</td>
</tr>
<tr>
<td></td>
<td>(R1, R2,R3,R6, external respondent investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Possessed advanced technology innovation capabilities.</td>
</tr>
<tr>
<td></td>
<td>(R2, R3,R4,R8)</td>
</tr>
<tr>
<td></td>
<td>Possessed advanced management systems.</td>
</tr>
<tr>
<td></td>
<td>(R2,R3,R4,R5,R6)</td>
</tr>
</tbody>
</table>

**KEY EVENT 3**

<table>
<thead>
<tr>
<th>Identification ability</th>
<th>Underlying factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Prior ties with the UK3</td>
</tr>
<tr>
<td></td>
<td>Had close collaboration experiences with UK3.</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R3,R4,R6,R7,external respondent senior journalist)</td>
</tr>
<tr>
<td></td>
<td>Had a good Understanding about what assets UK3 possess and the quality of the assets.</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R3,R4, external respondent investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Familiar with European markets and regulations.</td>
</tr>
<tr>
<td></td>
<td>Had good knowledge of how to handle human resource issues of UK3</td>
</tr>
<tr>
<td></td>
<td>(R3,R4,R5,R6,R8,external respondent senior journalist)</td>
</tr>
</tbody>
</table>

**China 3**

<table>
<thead>
<tr>
<th>Identification ability</th>
<th>Underlying factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Selected US 1 as the appropriate target to gain reputation and high quality local management team.</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R3,R4,R5, External respondents)</td>
</tr>
<tr>
<td></td>
<td>Underlying factors</td>
</tr>
<tr>
<td></td>
<td>Prior ties with US</td>
</tr>
<tr>
<td></td>
<td>Exported to US market for several years.</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R3,R4,R5,external respondent university scholar, government</td>
</tr>
<tr>
<td>The effort made in Acquisition</td>
<td>Devote large amounts of resources and thorough efforts. (R1, external respondent government official, university scholar) Sent many people to visit and investigate US market. (R2, R3, R5, external respondent senior journalist) Invited local consulting experts. (R1, R3)</td>
</tr>
<tr>
<td>Underlying factors</td>
<td>Leader’s attitude</td>
</tr>
<tr>
<td></td>
<td>Leader was aware of the difficulties and attached great importance to making thorough efforts to ensure the success of the investment. (R1, R3, R4, External respondent senior journalist) Leader participated in the preparation and discussed with special teams about every potential challenge China 3 would encounter. (R2, R3, R4, external respondent senior journalist)</td>
</tr>
<tr>
<td>Identification ability</td>
<td>Identified the appropriateness of US 2 US 2 had high end products with good reputation and good quality. (External respondent investment banking, government official) China 3 was able to maintain the acquired high value business (R1, R2, external respondent investment banking analyst) Meanwhile, were aware of the drawback of acquiring US 2 (R1, R2, R3, external respondent senior journalist) Identified the pros and cons of acquiring US3 Possessed valuable assets which China 3 aimed for (R2, R5, external respondent investment banking analyst, senior journalist) Difficulty to utilize US 3’s R&amp;D department, brand assets and marketing channels. (R1, R2, R4, external respondent senior journalist) Identified the inappropriateness of assets in French 1. French 1 mainly has manufacturing factories, no valuable R&amp;D. (R2, R5)</td>
</tr>
</tbody>
</table>

**Prior international knowledge seeking experiences**

Had successfully entered into advanced markets before. (R1, R2, R3, R4, R5, external respondent university scholar, senior journalist) Had rich experiences of building up capabilities through entering into German and Japanese markets. (R1, R2, R3, R5, external respondent senior journalist)
<table>
<thead>
<tr>
<th>Key event 3</th>
<th>Identification ability</th>
<th>Underlying factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td><strong>Identification ability</strong> High quality assets and was within China 3’s ability to absorb (external respondent government official) Japanese 1 had the most advanced air cooling refrigeration technology (R1,R3,R4) Targeted the right technology to open the European market. (R1,R2,R3)</td>
</tr>
<tr>
<td></td>
<td><strong>Underlying factors</strong></td>
<td><strong>Prior ties with the target</strong> Had deep collaboration experiences with Japan 1 (R1,R2,R4,R5,External respondent senior journalist) Had accumulated experiences and knowledge on how Japanese companies operate (R2,R5) Familiar with their way of doing business and how to communicate with them. (R1,R4)</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Prior knowledge seeking experiences in European market.</strong> Identified the right technology they needed to enter into European mainstream market. (R1, R3, external respondent university scholar). Had rich market entry experiences in developed countries. (R1, R2, R4, external respondent senior journalist, university scholar). Had established manufacturing base, design centres and collecting latest information in European market. (R3,R5,external respondent university scholar) Actively participated in international competitions. (R1) Identified major bottle neck to enter into mainstream market. (R2, External respondent senior journalist).</td>
</tr>
<tr>
<td>The effort made in</td>
<td>N/A</td>
<td><strong>The effort made in Acquisition</strong> The process went on very smoothly. ( R1,R2,R5 )</td>
</tr>
<tr>
<td>Acquisition</td>
<td></td>
<td><strong>Underlying factors</strong> Already possessed requisite capabilities (R1,R2,R3) Had first class refrigerator manufacturing capability which was what Japan 1 desired. (R1, R4,external respondent university scholar, senior journalist) China 3 is the best choice for Japan 1. (External respondent journalist)</td>
</tr>
</tbody>
</table>
# China 4

## Key event 1

<table>
<thead>
<tr>
<th>Identification ability</th>
<th>Had a wrong expectation about the assets, did not gain what China 4 intended initially.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(R1,R2,R3,R4,R5, external respondent university scholar, investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Totally wrong assets in terms of Outdated brand image in European market—not a high technology producer in German market</td>
</tr>
<tr>
<td></td>
<td>(external respondent journalist, R2,R7)</td>
</tr>
<tr>
<td></td>
<td>German 1’s assets were even behind those of China 4</td>
</tr>
<tr>
<td></td>
<td>(R2,external respondent investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>It had been shut down a long time ago</td>
</tr>
<tr>
<td></td>
<td>(R1,R3,R6,R7,R8)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underlying factors</th>
<th><strong>Lack of prior knowledge</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Did not have knowledge about the position and image of the target until it had acquired the company</td>
</tr>
<tr>
<td></td>
<td>(R2,External respondent investment banking analyst)</td>
</tr>
<tr>
<td></td>
<td>Did not have sufficient knowledge about German market.</td>
</tr>
<tr>
<td></td>
<td>( R1,R3,external respondent university scholar)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underlying factors</th>
<th><strong>Lack of special talents to identify the value of the assets</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Did not have managerial personnel familiar with the international market is the key reason.</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R7,R8,External respondent government official)</td>
</tr>
</tbody>
</table>

## Key event 2

<table>
<thead>
<tr>
<th>Identification ability:</th>
<th>Brand assets of the target were outdated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>(R1,R2,R3,R4, R5,External respondent university scholar, government official)</td>
</tr>
<tr>
<td></td>
<td>The target didn’t have advanced technology –obtained CRT technology which was soon outdated</td>
</tr>
<tr>
<td></td>
<td>(R1,R4,R5,External respondent investment bank analyst, government official)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underlying factors</th>
<th><strong>Lack of the ability to identify technology development trend</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formed a wrong anticipation about when technology shift was likely to take place.</td>
</tr>
<tr>
<td></td>
<td>(R2,R4,External respondent journalist)</td>
</tr>
<tr>
<td></td>
<td>Did not realize the rapid technology shift until 2005</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R4,R5)</td>
</tr>
<tr>
<td></td>
<td>Did not know which technology would be the advanced one, lack of core technology,</td>
</tr>
<tr>
<td></td>
<td>(R3,R5,R4,External respondent investment banking analyst, government official)</td>
</tr>
</tbody>
</table>

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government official)
Limited understanding about LCD technology.
(R1,R3, R5)

**Lack of basic knowledge about host market regulations and culture.**
Did not know the cost of reducing employee numbers could be so high in Europe.
(R1,R2,R6)
Unfamiliar with culture differences
(R1,R2,R3,R5,external respondent government official)

**Lack of talents with international operation experiences**
Did not possess any staff with international operation expertise.
(R1,R3,R4,R5,External respondent government official, senior journalist)
Encountered communication difficulties.
(R2,R5, external respondent senior journalist)
Managers did not even have appropriate English language skills.
(R4,R5, external respondent senior journalist)

**Leaders were over ambitious**
Dragon and tiger plan.
(R1,R2,R3,R4,external respondent government official, senior journalist)
Leader showed strong determination to change even though he faced opposition from inside the company.
(R2, R5, external respondent university scholar).
Leader was careless and too eager for success.
(R2,External respondent government official, university scholar, senior journalist)

<table>
<thead>
<tr>
<th>Effort made in Acquisition</th>
<th>The efforts made were not enough.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(R1,R2,R3,R4,external respondent government official, senior journalist)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underlying factors</th>
<th>Prior successful experience in domestic market led to China4’s overconfidence.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(R2,R3,R4,R5, External respondent senior journalist)</td>
</tr>
<tr>
<td></td>
<td>China 4 was making profits all the time.</td>
</tr>
<tr>
<td></td>
<td>(R1,R2,R4)</td>
</tr>
<tr>
<td></td>
<td>Previous acquisition experience were only in domestic market</td>
</tr>
<tr>
<td></td>
<td>(R2, R3,External respondent government official)</td>
</tr>
<tr>
<td></td>
<td>The failure was outside China4’s expectation</td>
</tr>
<tr>
<td>Ability to retain</td>
<td><strong>Low</strong></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
</tbody>
</table>
| **Underlying factors** | **Failed to retain two initially acquired valuable assets**  
Abandoned marketing channels and managerial personnel along with the channel.  
(R1, R3, R4, R5, external respondent investment banking analyst)  
Abandoned majority of R&D personnel acquired from French 1.  
(R1, R2, R3, R5, external respondent investment banking analyst, senior journalist) |

| Underlying factors | **Inadequate financial status after joint venture**  
Huge loss after the joint venture.  
(R1, R2, R3, R5, external respondent government official, investment banking analyst).  
Could not afford to maintain the operation in European market.  
(R1, R2, R4, external respondent government official).  
The cost of using French 1’s R&D personnel was far beyond China 4’s ability to sustain.  
(R1, R3, R5, external respondent university scholar, investment banking analyst). |

| Underlying factors | **Unable to maintain relationship with channels**  
Lack of knowledge of how to maintain a good and long relationship with channels.  
(R3, R4, external respondent senior journalist)  
China 4’s products had no unique selling points to attract channels.  
(R2, external respondent senior journalist, investment banking analyst) |

| Underlying factors | **No thorough preparation beforehand**  
Lack of thorough preparations was deemed to be a key factor lead to failing to retain acquired assets.  
(R1, R3, R4, R5, External respondent investment banking analyst, senior journalist). |

| **KEY EVENT 3** |
| --- | --- |
| **Identification ability** | **Low** |
| **Underlying factors** | **Gained outdated technology.**  
(R1, R5, R6, R8, External respondent government official)  
Failed M&A.  
(R1, R3, R6, R7)  
Total disaster  
(R2, external respondent university scholar, investment banking analyst)  
Did not possess core technology to foresee the importance of new technology  
(R1, R2, R6, R7, R8 External respondent government official, university scholar) |
| Effort made in acquisition | Lack of knowledge about foreign market culture and regulation (R8, External respondent investment banking analyst)  
Leader’s strong incentive to acquire assets from French 2 (R1,R2, R6, external respondent government official) |
| Underlying factors | Effort made in acquisition Simply designed the acquisition scheme by itself, without any external professional companies involved.  
(R2,R6,R7, external respondent university scholar, senior journalist)  
The effort was even less sufficient than in key event 2 (R1,R2,R3, external respondent government official, senior journalist) |
| Underlying factors | **Overconfidence about their own capabilities** (R1,R2, R7,external respondent government official)  
**Lack of resource commitment** (R1, R3,R6,R7,R8,external respondent senior journalist)  
Did not have enough resources to devote to two projects. (R6) |
| Ability to retain | **Failed to retain two Core valuable assets it targeted**  
Returned the R&D centre including R&D personnel and the laboratories. (R2, R3, R6, R7,R8, external respondent investment banking analyst)  
Lost two thirds of managers. (R1,R8,external respondent university scholar) |
| Underlying factors | Heavy loss in the new joint venture. (R2,R6, R7,external respondent investment banking analyst)  
The administration cost of China4’s mobile sector jumped dramatically after the acquisition. (R1,R2, R6, R8, external respondent university scholar)  
Cannot afford R&D personnel. (R1,R6,R8)  
Weak capability in terms of handling culture conflict. (R2,R6,R8, external respondent senior journalist, investment banking analyst)  
Poor effort made in acquisition was suggested as a critical factor. (R1,R3,R6,R7,External respondent government official, university scholar) |