



In search of strategic assets through cross-border merger and acquisitions: Evidence from Chinese multinational enterprises in developed economies



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ABSTRACT

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

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1. Introduction

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

overcome latecomer disadvantages and address competitive weakness in international markets (e.g. Agyenim, Wang, & Yang, 2008; Cui, Meyer, & Hu, 2014; Deng, 2004, 2007, 2009; Liu & Woywode, 2013; Luo & Tung, 2007; Nicholson & Salaber, 2013).

Strategic assets are firm-specific resources and capabilities that are difficult to trade and imitate, scarce, appropriable and specialised (Amit & Schoemaker, 1993). According to the resource-based view (RBV), strategic assets give firms competitive advantages over rivals and afford them the accrual of superior performance (Barney, 1991). Existing research on strategic asset-seeking CMNEs tends to focus on antecedents and processes. The antecedents are linked to the institutional characteristics of China¹ (Deng, 2009; Lu, Liu, & Wang, 2011), industry R&D intensity, firms' technology-based competitive advantages (Lu et al., 2011), firms' exposure to foreign competition, governance structure and

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

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

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

Though CBMAs offer a means for accessing strategic assets, their success depends on an appropriate post-CBMA integration approach. CMNEs face various challenges in managing CBMAs. For example, they encounter challenges associated with their country-of-origin (i.e. liability of country-of-origin) (Chang, Mellahi, & Wilkinson, 2009), e.g. institutional weakness and lack of global dominance of the home country; challenges associated with host DEs, including sceptical regulators, unions and other stakeholders; challenges associated with home and host country differences, especially national cultural distance. In addition to the challenges at the country level, CMNEs also face challenges at the firm level, e.g. the lack of experience in managing CBMAs and particularly in dealing with different organisational cultures that are embedded in different national cultures. Responding these challenges, CMNEs may choose different strategic approaches in managing post-CBMA activities. Traditionally, established MNEs often take a power or efficiency perspective to partially or fully integrate the business they have bought overseas in order to take control of new acquisitions and rationalise and restructure operations (Child, Falkner, & Pitkethly, 2001; Pablo, 1994). However, the traditional approach could be 'counterproductive' for CMNEs (Madhok & Keyhani, 2012) as it may destroy everything that they seek to gain through CBMAs, e.g. losing the identity of target firms, undermining their capabilities by disrupting routines and processes or even losing key talents whose knowledge is important to retain (Kale, Singh, & Raman, 2009; Madhok & Keyhani, 2012). Therefore, CMNEs need an alternative approach for post-CBMA integration. It is observed that emerging economy MNEs (EMNEs), particularly Asian MNEs, have taken a partnering approach, a strategic approach that keeps an acquisition structurally separate but with coordination in business activities that help create synergy (Kale

et al., 2009). This approach gives the newly acquired firms autonomy, reduces the unintended consequences and minimises the complexity of partial and full integration, and helps the acquired firms retain key personnel and maintain original identities of target firms. Kale et al. (2009) indicate that the partnering approach has generated value for Indian firms, and their acquired firms in the US and Europe were satisfied to work with the Indian parent companies. However, we know little about the validity of the partnering approach for strategic seeking CMNEs.

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

This paper is organised as follows. The next section discusses the theoretical background. Section 3 introduces research design and is followed by case evidence and discussions in Section 4. The last section concludes with implications and limitations.

2. Theoretical background

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

2.1. Strategic asset-seeking through CBMAs

Strategic assets are defined as "the set of difficult to trade, imitate, scare, appropriable and specialised resources and capabilities that bestow the firms competitive advantage" (Amit & Schoemaker, 1993, p. 36). Strategic assets should have stable and long-lasting nature that enable firms to implement their strategy and provide them with a source of steady stream of rents (Barney, 1991). While existing research has a general agreement over the characteristics of strategic assets, they tend to treat strategic assets as an abstract concept and the operationalisation of strategic assets is through identification and selection of a wide range of unique, intangible and organisationally embedded resources and capabilities that include managerial resources, knowledge-based resources, organisational capabilities and relational resources (Beleska-Spasova, Glaister, & Stride, 2012). Strategic assets are those resources and capabilities that give firms competitive advantages. The management therefore must invest in strategic assets. Strategic assets can be acquired through internal development, e.g. R&D,

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