



European J. of International Management

ISSN online: 1751-6765 - ISSN print: 1751-6757

<https://www.inderscience.com/ejim>

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DOI: [10.1504/EJIM.2021.10042863](https://doi.org/10.1504/EJIM.2021.10042863)

Article History:

Received: 21 November 2020

Accepted: 03 July 2021

Published online: 06 October 2023

M&As by Chinese multinational enterprises in developed economies: strategic asset seeking and bundling

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Abstract: The extant literature argues that Cross-Border M&As (CBMAs) by Chinese Multinational Enterprises (CMNEs) in developed economies are motivated by Strategic Asset Seeking (SAS). However, a more detailed look at the specific strategic assets is often missing. This study investigates which specific strategic assets CMNEs search for, based on the strategic assets that they already possess, and how assets from the acquiring and the acquired companies are bundled after acquisition. By analysing 12 CBMAs, through the perspectives of both the acquired and the acquiring firms, we demonstrate that the interplay between existing country-specific and firm-specific assets enables CMNEs to bundle their existing assets with complementary Western assets. We also provide empirical evidence that technology transfer between CMNEs and Western targets occurs in both directions, and that Chinese acquirers and their target firms both employ joint innovation to upgrade technologies and enhance product offerings.

Keywords: asset bundling; cross-border M&A; Chinese multinational enterprises; strategic asset seeking; emerging market enterprise; EMNE.

Reference to this paper should be made as follows: Wu, J. and Morschett, D. (2023) 'M&As by Chinese multinational enterprises in developed economies: strategic asset seeking and bundling', *European J. International Management*, Vol. 21, No. 3, pp.460–488.

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1 Introduction

The global financial crisis of 2008 had relatively little impact in China, and thus brought historic opportunities for Chinese businesses to compete on the global stage (Sauvant et al., 2010). Numerous Chinese Multinational Enterprises (CMNEs) emerged and began actively participating in Cross-Border Mergers and Acquisitions (CBMAs).

Concerns have emerged in Developed Economies (DEs) that Chinese acquisitions have unilateral benefits and threaten the competitiveness of the West, particularly as China restricts Mergers & Acquisitions (M&As) of Chinese enterprises by foreign investors. This has triggered a political debate about whether the West should regulate Chinese acquisitions (Ewing, 2020; Swanson, 2020). Existing research has broadly found that Strategic Asset Seeking (SAS) is among the most important motivations for Chinese CBMAs (Rugman and Li, 2007; Deng, 2009; Blomkvist and Drogendijk, 2016; Zheng et al., 2016; Ai and Tan, 2018), as CMNEs work to overcome latecomer disadvantages and address competitive weaknesses in world markets (Luo and Tung, 2007; Deng, 2009; Nicholson and Salaber, 2013).

However, the literature tends to discuss strategic assets in generic, abstract terms and ignore their contexts (Zheng et al., 2016). The reality is more complicated: different acquiring firms seek different strategic assets (Capron et al., 1998; Nicholson and Salaber, 2013) to complement their existing Country-Specific Advantages (CSAs) and Firm-Specific Advantages (FSAs) and create value for the acquired firms as well as for themselves. There is little research that systematically examines the nature of the strategic assets that CMNEs acquire through CBMAs and how these assets are bundled with the firms' existing resources to create shared economic value.

Buckley et al. (2017) called for more detailed studies of the mechanisms of CBMAs by firms based in emerging markets, hence our paper explores three research questions: What strategic assets do CMNEs aim to obtain through acquisitions of Western firms? What assets do CMNEs possess prior to these acquisitions that create potential for effective use of acquired assets? And how do CMNEs bundle the acquired assets with their existing resources to create competitive advantages?

This study examines case studies of 12 acquisitions by eight CMNEs, investigating them from the perspectives of both the acquiring and the acquired companies. These case studies reveal that, prior to the acquisitions, these CMNEs already possessed substantial FSAs in addition to CSAs, and that their acquisitions targeted Western firms with complementary asset profiles. It also reveals that these CMNEs engaged in acquisitions of Western companies based on the potential for value creation through asset bundling, and used both their CSAs and their FSAs in combination with newly acquired Western strategic assets to achieve synergies and create value on both sides.

This paper offers several contributions. First, it extends Dunning's (1993, 2001) concept of SAS by examining the variety and relevance of asset sets sought by internationalising companies, thereby providing a deeper understanding of the critical role these assets play in CMNEs' internationalisation. Second, it enriches Hennart's (2009, 2018) bundling theory by detailing the asset profiles of CMNEs prior to CBMAs and further clarifying the role of both CSAs and FSAs in the asset bundling process. Third, it supports and extends the composition-based view of CBMAs (Luo and Child, 2015; Zhou et al., 2019), confirming the capability of CMNEs to combine and leverage newly acquired resources, and extending this view to account for intangible FSAs as well as ordinary assets. Fourth, it confirms that the bundling activities of CMNEs can create

‘private synergy’ (Barney, 1988) which is inimitable and unique and benefits both the acquirers and the acquired companies. Across the case studies described in our research, private synergy proved a winning factor for CMNEs in their bids against Western competitors.

2 Theoretical background

2.1 Strategic asset seeking

Within the resource-based view, a company is conceptualised as a bundle of resources (Wernerfelt, 1984). Companies are differentiated from one another by the heterogeneity of their assets and the imperfect mobility of certain assets (Barney, 1991; Amit and Schoemaker, 1993). Following several authors (Caves, 1980; Hennart, 2009), we use the terms ‘assets’ and ‘resources’ interchangeably. Strategic assets are resources which make vital and unique contributions to sustainable competitive advantages because they are Valuable, Rare, Inimitable and Non-substitutable (VRIN) (Barney, 1991). Examples of strategic assets include proprietary technologies, R&D capabilities, buyer-supplier relationships and brand names (Teece and Pisano, 1994).

Dunning (1993) identifies SAS as one of four Foreign Direct Investment (FDI) motives for EMNEs, alongside market seeking, efficiency seeking and nature resource seeking. He defines SAS FDI as creating or gaining access to assets that complement existing core competencies and promote long-term strategic objectives – especially that of sustaining or advancing global competitiveness (Dunning, 1991; Dunning and Lundan, 2008). As EMNEs lack traditional ownership advantages (Lattermann et al., 2012; Bose et al., 2021), SAS is often considered as an accelerator for internationalisation when EMNEs act as investors (Cui et al., 2014; Meyer, 2015). Acquiring and bundling strategic assets from advanced markets is viewed as the fastest approach to reach desired goals (Boateng et al., 2008), a springboard to catch up with Western incumbents (Luo and Tung, 2007), and an effective way to earn legitimacy and prestige in the marketplace (Deng, 2007).

‘Strategic assets’ have conventionally been understood as an abstract concept devoid of context. We observe, however, that companies in the same industry seek different strategic assets, and that a specific external asset is considered strategic by one company but not by another. Hence, the notion of ‘strategic assets’ is in fact idiosyncratic and contextually defined. Trends in the copper processing industry during the global financial crisis provide an excellent example: As profit margins shrank, large players such as Wolverine and Hitachi Cable withdrew from the market and the industry largely moved to developing countries. R&D expertise in copper processing technology thus ceased to be a strategic asset for Western firms, but became highly desirable for EMNEs.

2.2 Asset bundling

The purpose of SAS is not to obtain the asset per se, as possessing assets alone does not guarantee the development of competitive advantage (Barney, 1991; Barney and Arkan, 2001). Assets must be accumulated, bundled, leveraged, and exploited. The full value of acquired strategic assets can be realised only when the acquiring firm bundles them with its own assets and manages the combined asset portfolio effectively (Sirmon et al., 2007,

2011; Wang et al., 2018), a process which relies on alignment between the acquirer's assets and the target assets.

The 'Ownership, Location, Internalisation' (OLI) model offers a strong explanation of the asset-exploiting FDIs of multinational enterprises from DEs (Dunning, 1988), but fails to interpret the asset seeking FDIs of EMNEs. The prominent 'Linkage, Leverage and Learning' (LLL) model (Mathews, 2006) and the 'Springboard' model (Luo and Tung, 2007) address the aggressive internationalisation of EMNEs. The key foundation of the LLL model is the outward linkages through which so-called 'dragon multinationals' access and leverage global resources for accelerated internationalisation. The Springboard model, meanwhile, describes how EMNEs use international expansion as a springboard to acquire strategic resources and to overcome their institutional and market constraints. However, neither of these two models explains why EMNEs are able to acquire strategic assets from their Western rivals while simultaneously competing with them in their home markets.

Hennart's (2009, 2018) bundling theory accommodates both asset exploiting and asset seeking FDIs, which the OLI model fails to do. Hennart argued that many EMNEs control local resources which have high transaction costs or are entirely non-tradable (market access, special permissions, governmental support, etc.); in contrast, many intangible assets controlled by firms from DEs (cutting edge technology, valuable brands, etc.) are tradeable and negotiable in competitive markets. Ownership of local resources provides the opportunity for EMNEs to successfully bundle complementary strategic assets from DEs. Rugman (2008, 2009) and Bhaumik et al. (2016) share Hennart's view, and claim that EMNEs possess few FSAs but a range of CSAs that enable them to benefit considerably from internationalisation. However, underestimating EMNEs' FSAs could make a complete view impossible and may only lead to a partial picture of EMNEs' internationalisation.

The composition-based view (Luo and Child, 2015; Zhou et al., 2019) claims that, in general, EMNEs only possess ordinary assets, but many have the compositional capability to combine and leverage ordinary internal and external resources to produce extraordinary results – a capability which has enabled EMNEs to grow very rapidly. However, this perspective fails to account for EMNEs' prior possession of VRIN assets.

Recent studies on the rise of some globally competitive CMNEs, including Haier (Meyer, 2017) and Huawei (Fan, 2011), indicate that this view is unable to fully explain rapid internationalisation. Luo and Rui (2009) and Luo and Tung (2017) stated that several CMNEs have dynamic and ambidextrous capabilities. Ramamurti (2009) pointed out that EMNEs possess FSAs suited to emerging markets, such as operational excellence and product development. Marinova et al. (2011) revealed that the rapid internationalisation of many CMNEs is driven by effectively combining their home country CSAs and FSAs.

Assessing CMNEs' CSAs and FSAs and investigating their specific asset bundling activities through in-depth case studies can shed greater light on these diverging views. Asset bundling plays a key role in the SAS M&A process. In the pre-acquisition phase, acquiring firms screen and evaluate their own assets to identify missing resources and to determine what to develop internally and what to acquire externally (Sirmon et al., 2010; Miao et al., 2017). In the negotiation phase, they consider the future use of the targeted assets.

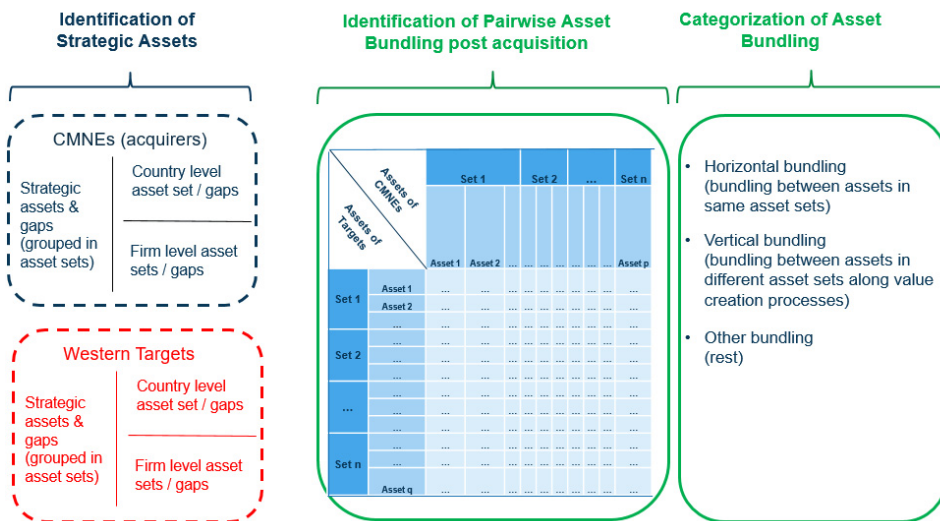
The sellers' choice of buyer is often based on convincing asset bundling plans, in addition to the purchase price offered. Only acquirers with the potential to create 'private

synergy’ by bundling the target assets can earn an ‘abnormal return’ in M&A deals (Barney, 1988). Synergy is considered; ‘private’ if competing bidders cannot achieve similar synergies. Post-acquisition integration involves implementing asset bundling and realising synergies to create economic value.

2.3 Conceptual framework of asset bundling

Based on the nature of the above-mentioned asset bundling process in CBMAs, we propose an analytical framework (see Figure 1) consisting of three components: (1) identification of strategic assets; (2) identification of pairwise asset bundling and (3) categorisation of asset bundling.

Figure 1 Conceptual framework of asset bundling



We begin our analysis by identifying the asset profiles of the acquiring and target firms. Building on the categorisation scheme developed by Rugman (2007), we first divide assets into two general categories – CSAs and FSAs. We then adopt the asset subdivision approach used by Capron et al. (1998) to further group FSAs into R&D, manufacturing, marketing, and managerial and financial assets, resulting in the following 6-set asset classification:

Set 1: Country-level assets: Country image, home market, cheap and/or highly skilled labour, government-created advantages.

Set 2: R&D assets: Technological and product development capability.

Set 3: Manufacturing assets: Production ability and efficiency.

Set 4: Marketing assets: Brand, brand management, distribution channels, buyer-seller relationship, customer service, business reputation.

Set 5: Managerial assets: Leadership, reporting systems, planning tools and other general management skills that firms require as part of their ongoing administration.

Set 6: Financial assets: All financial means for operating and developing the business.

Using these categories, we put the identified assets of the acquirers and targets into a matrix and depict the pairwise asset bundling from both sides, which helps us understand how CMNEs reconfigure their resources through strategic asset seeking and bundling.

Finally, we use the categorised pairwise asset combinations to investigate value creation mechanisms. Inspired by Capron and Mitchell (1998), we discuss bundling results within three categories – horizontal asset bundling (pairwise combinations of resources that fall within the same asset sets), vertical asset bundling (pairwise combinations of resources that commonly link vertically with each other in the commercialisation process) and other asset bundling (pairwise combinations which cannot be categorised as horizontal or vertical).

3 Methodology

Given the exploratory nature of this study, we employ a multiple case study approach based on qualitative, semi-structured interviews and secondary data. The multiple case study is a highly useful approach when cross-cultural and cross-border issues are involved, when ‘how’ and ‘why’ questions are posed, and when the research addresses a contemporary phenomenon within a rich, real-life context (Eisenhardt and Graebner, 2007; Flick, 2014).

3.1 Data collection

To maximise internal validity, we employ theoretical sampling by purposely selecting cases which are particularly suitable for addressing our research questions (Eisenhardt and Graebner, 2007).

In selecting cases, we limited our search to those in which CBMAs have been motivated by SAS and the acquired assets have been thought to serve the long-term objectives and global strategies of the acquirer. We also preferred CBMAs driven primarily by entrepreneurial motives. In addition, we limited our sample to those cases with sufficient data on detailed asset bundling activities from both the acquirer and acquired sides.

We focus on Chinese Private-Owned Enterprises (POEs) because in recent years, Chinese POEs were responsible for the majority of CBMAs by CMNEs. They accounted, e.g., for 76% of the 489 Chinese acquisitions in 2015 (KPMG, 2016). POEs are latecomers in international business and, therefore, are more likely to seek strategic assets overseas using CBMAs (Cui et al. 2014; Quer et al., 2020). Furthermore, acquisitions by POEs are more likely to be driven by entrepreneurial and market-oriented motives compared to state-owned enterprises SOEs (Child and Rodrigues, 2005). Zhang et al. (2021) confirmed that government affiliation of Chinese companies has a strong influence on their international acquisition behaviour which we want to exclude from this study. Lastly, POEs tend to be more transparent than SOEs (Liu and Woywode, 2013).

We applied the following criteria to narrow our case selection:

- 1 Owing to the limited availability of reliable information about non-listed companies and the limited transparency of SOEs, we chose SAS acquisitions conducted by listed Chinese firms which have identified themselves as POEs with no governmental investors among the top ten shareholders.
- 2 We focused on the manufacturing sector to avoid strong heterogeneity which might result from differing sector contexts (Eisenhardt, 1989). The manufacturing sector has played an important role in China's economic growth and underpins the drive of Chinese firms' internationalisation through M&A (Deng, 2009).
- 3 We focused on acquisitions with target firms in Europe and the USA because previous studies have shown that most acquisitions by CMNEs in these regions are SAS (Aoki et al., 2014; Blomkvist and Drogendijk, 2016; DealGlobe and HurunReport, 2017).
- 4 Acquisitions had been legally completed at least one year prior to the first round of data collection to ensure sufficient time to initiate asset bundling activities.

Chinese acquisitions in Switzerland, a small but highly innovative market with high labour costs (Schwab, 2018), are very likely to be motivated by asset seeking. Since the authors are based in Switzerland, we started our case search there. To enhance validity, we asked CBMA-experts from UBS investment banking, E&Y, PWC and KPMG to recommend CBMA cases from European countries and the USA. Based on our selection criteria, we reduced the list of 65 potential cases to 25 using an outside-in perspective (excluding cases with SOEs or firms with significant governmental influence as acquirer; selecting out cases with motivations other than SAS). Of course, retrieving information from the case study firms using interviews requires the consent of the company; therefore, in the last step, after approaching the remaining companies, we further ruled out cases in which we could not interview both sides (acquirer and acquired). This left the 12 cases detailed in this paper.

For these 12 cases, we have conducted interviews with 27 high-level decision-makers from both the acquiring and acquired firms and with six external experts (lawyers, consultants, and investment bankers) who have been involved in the acquisition processes (see Table 1). We have collected detailed primary (interviews and emails) and secondary (financial reports, internal and external reports, etc.) data on eight Chinese manufacturing POEs (with firm sizes between 3000 employees and 18,000 employees) and 12 of their target firms. Data was gathered in two rounds between 2017 and 2019. In total, we conducted 30 interviews in the first round and 17 in the second. The interviews took between 90 minutes and four hours. We have personally visited all acquiring and acquired firms in Europe and China.

Table 1 Statistics of interviewees

	<i>Company</i>	<i>Interviewee</i>	<i>1st round</i>	<i>2nd round</i>
1	Sino Outdoor	CFO, founder	x	x
2	West Outdoor	CFO	x	
3	West Outdoor	Head of HR		x
4	Sino Tool	Vice president	x	x
5	Sino Tool	Head of sales	x	

Table 1 Statistics of interviewees (continued)

	<i>Company</i>	<i>Interviewee</i>	<i>1st round</i>	<i>2nd round</i>
6	West Tool 1	CEO	x	
7	West Tool 2	General manager	x	x
8	West Tool 3	CEO		x
9	West Tool 4	CEO	x	
10	Sino Textile	CFO	x	
11	West Textile	President	x	x
12	West Textile	CFO	x	
13	Sino Knitting	CEO	x	x
14	Sino Knitting	CTO	x	x
15	West Knitting	CEO	x	x
16	West Knitting	Project manager		x
17	Sino Metal	Vice president	x	x
18	West Metal	CEO	x	x
19	Sino Copper	Head of overseas investment	x	x
20	West Copper Retail	General manager	x	x
21	West Copper Process	CTO	x	
22	Sino Motor	Vice president of sales	x	x
23	Sino Motor	CIO	x	
24	West Motor	Head of marketing	x	
25	Sino Construct	Chairman	x	
26	Sino Construct	Head of technique department	x	x
27	West Construct	CEO and head of design	x	x
<i>Interviews with external experts</i>				
28	Legal consultant of a law company		x	
29	M&A expert of KPMG		x	
30	M&A expert of Deloitte		x	
31	M&A expert of PWC		x	
32	M&A expert of E&Y		x	
33	Investment banking expert of UBS		x	

All interviews were tape-recorded, transcribed in the original language (Chinese, English, or German), and sent to the interviewees for verification. Subsequently, the Chinese and German transcriptions were translated into English by the first author and reviewed by a professional translation service.

All cases are listed in Table 2. The eight Chinese POEs cover four sectors – consumer goods, machinery, raw material processing and construction. The 12 acquired firms are located in four countries (6 in Switzerland, 4 in the USA, 1 in Austria and 1 in Finland).

Table 2 Key data of sample cases

Case	Acquirer / Acquired	Industry	Foundation acquirer / acquired	Employees of acquirer / acquired	Transaction price in million USD	Origin country of target	Targeted strategic assets	Status of acquirer in the industry	Status of acquired in the industry	Year of acquisition
C1	Sino Outdoor / West Outdoor	Manufacturing (consumer goods)	1996 / 1909	1500 / 70	16	Switzerland	Country image, brand, design skill	The biggest water bottle producer in China	The most famous water bottle supplier in German countries	2016
C2	Sino Tool / West Tool 1	Manufacturing (consumer goods)	1993 / 1929	6600 / 350	125	USA	Country image, brand	The largest home tool producer in Asia and one of top 500 firms in the world, with a revenue of USD 3 billion	One of the most famous tool brands in the USA	2010
C3	Sino Tool / West Tool 2	Manufacturing (consumer goods)	1993 / 1885	6600 / 50	1.3	USA	Country image, brand		One of the most famous tool brands in the USA	2016
C4	Sino Tool / West Tool 3	Manufacturing (consumer goods)	1993 / 1903	6600 / 60	3.57	USA	Country image, brand		One of the most famous tool brands in the USA	2017
C5	Sino Tool / West Tool 4	Manufacturing (consumer goods)	1993 / 1945	6600 / 500	1.85	Switzerland	Country image, brand		A famous Swiss brand for furniture and furniture tool	2018
C6	Sino Textile / West Textile	Manufacturing (machinery)	2000 / 1853	12000 / 4000	Unknown	Switzerland	Brand, technology	One of the most famous brands of carding machines	Famous textile machine brand in Europe with a long tradition	2013
C7	Sino Knitting / West Knitting	Manufacturing (machinery)	1988 / 1947	1612 / 100	Unknown	Switzerland	Brand, technology	Number one knitting machine producer in China	One of the four most famous knitting machine brands in the world	2010

Table 2 Key data of sample cases (continued)

Case	Acquirer / Acquired	Industry	Foundation acquirer / acquired	Employees of acquirer / acquired	Transaction price in million USD	Origin country of target	Targeted strategic assets	Status of acquirer in the industry	Status of acquired in the industry	Year of acquisition
C8	Sino Metal / West Metal	Manufacturing (row material processing)	2002 / 1855	3000 / 200	65	Switzerland	Brand, technology, sales channel	Top 3 provincial manufacturing firm	World most famous firm in the niche market of copper processing for precise instruments	2013
C9	Sino Copper / West Copper Retail	Manufacturing (row material processing)	1989 / 1947	12000 / 120	32	USA	Sales channel	The largest copper processing company in Asia	Famous retailer for copper processing product in the USA with a broad network	2016
C10	Sino Copper / West Copper Process	Manufacturing (row material processing)	1989 / 1939	12000 / 400	80	Finland	Production base, technology, sales channel		Big copper processing company in Europe	2017
C11	Sino Motor / West Motor	Manufacturing (machinery)	1984 / 1908	18000 / 3500	136	Austria	Country image, brand, sales channel, production base	The largest electric motor supplier in China	Famous electric motor brand with factories in Germany, the Netherlands and Austria	2011
C12	Sino Construct / West Construct	Manufacturing (construction)	1993 / 1936	12000 / 36	Unknown	Switzerland	Sales channel, design team	The largest façade construction firm in China	A famous Swiss façade design company	2008

To ensure confidentiality, we refer to all Chinese and target firms using pseudonyms.

3.2 Data analysis

As suggested by Yin (2013), we began our data analysis by synthesising all interview and secondary data using the MAXQDA statistical analysis tool. We then followed the methodological procedure recommended by Miles et al. (2014), beginning with entering case descriptions and establishing a coding frame, and progressing through a pilot test, revision of codes, assessment of code reliability, and finally coding of all data.

We iterated between the conceptual framework (see Figure 1), the empirical data, and related literature to identify first-order codes, second-order constructs, and aggregate dimensions (see Table 3). The first step involved open coding, consisting of breaking data into discrete named categories of events or acts (Miles et al., 2014). The second step was axial coding (Corbin and Strauss, 2008), whereby first-order codes were grouped into sets of more abstract second-order codes, from which aggregate theoretical dimensions were derived using selective coding. The codes related to asset types are static (describing the asset profiles of the acquirers and target firms at the time prior to the acquisitions) and those related to asset bundling are dynamic (delineating the dynamic combination among different assets).

Table 3 Coding structure

<i>First-order categories</i>	<i>Second-order themes</i>	<i>Aggregate dimensions</i>
Swiss-made, made in Germany Traditional craftsman spirit	Country image	
Cheap salary for manufacturing labour Highly qualified technical labour	Labour market	
Market breadth and depth in different segmentation	Market	CSAs of acquirer/acquired
Financial support from the government Consulting support by governmental expert	Government-created advantage	
Product design R&A endowment Innovation resources and mechanism	Technology asset	
Production basis in home country and foreign countries Efficiency of production	Production asset	
Brand Sales channels Marketing resources	Marketing asset	FSA of acquirer/acquired
Leadership, managerial vision, entrepreneurship Operation management HR management International experience	Managerial asset	
Funding resources Capital base Networking in finance market	Financial asset	

Table 3 Coding structure (continued)

<i>First-order categories</i>	<i>Second-order themes</i>	<i>Aggregate dimensions</i>
Liability of country of origin Lack of qualified labour	Lack of CSA from an advanced economy	Gaps in CSA of acquirer/acquired
Lack of certain technology Lack of design capability Lack of R&D and innovation resources	Lack of technology asset	
Lack of production facilities outside home country	Lack of alternative production resource	
Lack of brand Lack of sales channel Lack of marketing resources in home / foreign market	Lack of marketing asset	Gaps in FSA of acquirer/acquired
Lack of international marketing experience Lack of international projecting knowledge Succession problem	Lack of managerial asset	
Insufficient capital for R&D Insufficient capital for market development	Lack of financial asset	
Mutual technology support and upgrading Promote acquired brand with Chinese marketing resources Combine production resources from both sides Joint R&D and innovation Combine acquired technology with own product Combine acquired brand with own production Combine design from target with own production Promote acquired brand in home market Using target's sales channel for Chinese product Promote acquired brand in home market Promote craftsman spirit in home market Invest into target's R&D by acquirer Strengthen marketing team in Europe/USA	Horizontal bundling Vertical bundling Other bundling	Bundling strategic assets with existing assets

To improve the validity of the coding, data analysis with MAXQDA was done by two people independently. In case of discrepancies, a discussion was held to reach consensus.

4 Empirical findings

Tables 4 and 5 present the results of the 6-set analysis of the asset profiles of the case study CMNEs and their target firms. Table 6 presents an asset bundling matrix, which shows all pairwise asset combinations identified in this study. These tables provide a complete overview of the strategic assets which CMNEs' targets and those they possess prior to the CBMAs, and how they bundle the acquired assets with their existing resources to create competitive advantages. In this chapter, we highlight our major findings.

Table 4 Assets/gaps of CMNEs

<i>Assets/gaps of CMNEs</i>		<i>Cases</i>	<i>Total</i>	
Assets related to CSA	Big home market	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12	12	
	Cheap labour	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12	12	
	Government-created advantage	C6,C7,C8,C11	4	
Gaps due to CSDA ¹	Bad country image, country of origin, trading barrier	C1,C2,C3,C4,C5,C8,C9,C10,C11	9	
	Lack of craftsmanship spirit	C4,C5,C6,C7,C8,C9,C11,C12	8	
Assets related to FSA	R&D resources	Technology	C1,C2,C3,C4,C5,C6,C7,C9,C10,C11,C12	11
	Manufacturing resources	Product and product development	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12	12
		R&D and innovation	C1,C2,C3,C4,C5,C6,C7,C9,C10,C11,C12	11
	Marketing resources	Efficient production & cost management	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12	12
	Managerial resources	Marketing skill, channel	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11	11
		Talents	C1,C2,C3,C4,C5,C7,C10,C12	8
	Financial resources	Effective risk management	C10,C11	2
Gaps due to FSDA ²	Gap in R&D resources	Financial resource	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12	12
		Lack of original innovation	C1,C2,C3,C4,C5,C6,C7,C8,C11,C12	10
	Gap in marketing	Technology gap	C1,C5,C6,C7,C8,C9,C11	7
		Lack of brand & market recognition	C1,C2,C3,C4,C5,C6,C7,C8,C10,C11	10
		Weak position in Western market	C1,C2,C3,C4,C7,C8,C10,C11,C12	9
	Gap in management	Lack of talent, lack of internationalisation	C1,C6,C8,C12,C14	5
Lack of internationalisation experience		C1,C6,C8,C11,C12	5	

Table 5 Assets/gaps of Western target firms

<i>Assets/gaps of target firms</i>		<i>Cases</i>	<i>Total</i>	
Assets related to CSA	Country image, country of origin	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12	11	
	Highly skilled labour	C5,C6,C7,C8,C9,C11,C12	7	
	High-end market	C1,C2,C3,C4,C5,C7,C8,C10,C11,C12	10	
	Craftsman spirit	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12	11	
Gaps due to CSDA	High labour cost	C1,C2,C3,C4,C5,C6,C7,C8,C10,C11,C12	11	
Assets related to FSA	R&D resources	Technology	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12	11
		Product	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11	10
		R&D and innovation	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12	12
	Manufacturing resources	Production	C1,C2,C5,C6,C7,C8,C9,C11	8
		Marketing resources	Brand, reputation, long tradition	C1,C2,C3,C4,C5,C6,C7,C8,C10,C11
	Marketing skill, channel		C1,C2,C7,C8,C10,C11,C12	7
	Managerial resources	Good manager, talent	C2,C3,C6,C9,C10,C12	6
	Gaps due to FSDA	Gap in R&D resources	Bad in innovation cost control, bad in market oriented innovation	C1,C2,C3,C4,C7
Gap in production		Old fashioned equipment/plant	C2,C3,C4,C9,C10	5
Gap in marketing		Marketing problem (weak position in Asia and/or in other markets)	C1,C2,C3,C4,C5,C6,C7,C8,C11,C12	12
Gap in management		Managerial problem (bad incentive system, no diversification strategy, bad cost controlling, lack of vision & ambition, lack of dynamics)	C1,C2,C3,C4,C6,C8,C9,C10,C11,C12	10
		Former owner problem	C1,C2,C3,C6,C7,C8,C9,C10,C11,C12	10
Gap in finance		Finance problem	C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12	12

Table 6 Matrix of asset bundling

CMNEs' asset types Target firms' asset types		Set 1		Set 2		Set 3		Set 4		Set 5		Set 6	
		1	2	3	4	5	6	7	8	9	10	11	12
		Big home market	Cheap labour	Government-created advantage	Technology	Product	R&D and innovation	Efficient production & cost management	Marketing Skill, channel	Good manager, talents	Effective risk management	Financial resources	
Country image, country of origin	A	C1,C2,C3,C4,C5,C6, C7,C8,C11, (9 cases)	C1,C2,C3,C4,C5,C6, C5,C6,C7,C8, (4 cases)	C6,C7,C8 (3 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (10 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (11 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)
Highly skilled labour	B	C6,C7,C11, (3 cases)	C5,C6,C7,C8, (4 cases)	C6,C7,C8, (3 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (11 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)
High-end market	C	C1,C2,C3,C4,C5,C6, C7,C8,C9,C10,C11 (11 cases)	C5,C6,C7,C8, (4 cases)	C6,C7,C8, (3 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (11 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)
Craftsman spirit	D	C1,C2,C3,C4,C5,C6, C7,C8,C9,C11 (10 cases)	C1,C2,C3,C4,C5,C6, C5,C6,C7,C8, (4 cases)	C6,C7,C8, (3 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (11 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)
Technology	E	C1,C2,C3,C4,C5,C6, C7,C8,C9,C11 (10 cases)	C1,C2,C3,C4,C5,C6, C5,C6,C7,C8, (4 cases)	C6,C7,C8, (3 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (11 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)
Product	F	C1,C2,C3,C4,C5,C6, C7,C8,C9,C11, (10 cases)	C1,C2,C3,C4,C5,C6, C5,C6,C7,C8, (4 cases)	C6,C7,C8, (3 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (11 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)
R&D and innovation	G	C1,C2,C3,C4,C5, C7,C8 (7 cases)	C1,C2,C3,C4,C5,C6, C5,C6,C7,C8, (4 cases)	C6,C7,C8, (3 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (11 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)	C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12 (12 cases)

Set 1

Set 2

Table 6 Matrix of asset bundling (continued)

		Set 1		Set 2		Set 3		Set 4		Set 5		Set 6	
CMNEs' asset types		Big home market	Cheap labour	Government-created advantage	Technology	Product	R&D and innovation	Efficient production & cost management	Marketing skill, channel	Good manager, talents	Effective risk management	Financial resources	
Target firms' asset types		1	2	3	4	5	6	7	8	9	10	11	
Set 3	Production	H						C1, C2, C3, C6, C7, C8, C9, C10, C11 (9 cases)					C1, C2, C6, C7, C8, C9, C11 (7 cases)
Set 4	Brand, reputation, long tradition	I	C1, C2, C3, C4, C5, C6, C7, C8, C11 (10 cases)	C6, C7, C8, C11 (4 cases)	C1, C2, C3, C4, C5, C7, C8, C10, C11, C12 (10 cases)	C1, C2, C3, C4, C5, C6, C7, C8, C10 (7 cases)	C1, C2, C3, C4, C5, C6, C7, C8, C10 (9 cases)	C1, C2, C3, C4, C5, C6, C7, C8, C10, C11, C12 (10 cases)					C1, C2, C3, C4, C5, C6, C7, C8, C10, C12 (10 cases)
	Marketing skill, channel	J			C1, C2, C7, C8, C10, C11, C12 (7 cases)	C2 (1 case)	C2 (1 case)		C1, C2, C3, C5, C6, C7, C8, C11 (8 cases)				C1, C2, C7, C8, C10, C11, C12 (7 cases)
Set 5	Good manager, talent	K								C1, C2, C3, C4, C5, C6, C7, C8, C9, C10, C11, C12 (12 cases)			
Set 6	Financial resource	L											

Notes: Set 1: Country level assets; Set 2: R&D assets; Set 3: Manufacturing assets; Set 4: Marketing assets; Set 5: Managerial assets; Set 6: Financial assets

4.1 The asset profiles of the CMNEs

The case CMNEs all possess national-level resources linked with commonly recognised advantages, including a large home market and access to cheap labour. Government-created advantages are seen in half of the cases in the form of low-interest loans, governmental orders, and soft support (e.g., consulting and training).

At the firm level, in all 12 cases, the target firms' managers confirm that their Chinese acquirers possess good or even excellent competitive products and efficient production. In all cases but one, the target firms expressed appreciation for the R&D and innovation capacities and marketing skills of the acquiring CMNEs. In the cases of *Sino Outdoor*, *Sino Tool* and *Sino Copper*, Western managers stated that the Chinese acquirers possessed more modern plants and production facilities than their Western competitors. In other cases, such as *Sino Textile* and *Sino Knitting*, they emphasised the Chinese firms' R&D and innovation abilities, especially in terms of time-to-market of new products and information on customer needs. By quickly adopting big data and social networking technology, Chinese companies have built up dynamic customer relationships which drive accelerated innovation and product upgrading.

'Commissioned by global retail dealers, [Sino Tool] produces tools with 90% of the functionality of tools from the most famous brands but at only 60% of the price. Its product line is extremely broad. It has continued investing in its production facility and R&D. Recently, it has established the most advanced plants in China.' (Managing Director, *West Tool 1*)

The CMNEs had, and still have, leading positions in their home market, particularly in the lower and middle market segments. *Sino Outdoor*, *Sino Knitting*, *Sino Textile* and *Sino Metal* are highly active in practice-oriented and cost-saving-oriented product development and incremental innovation. They have built solid customer bases and broad distribution networks across China. Seven of the eight CMNEs had previous experience cooperating with Western firms, as OEM/ODM producers (in the cases of *Sino Outdoor* and *Sino Tool*), or joint venture partners (*Sino Textile* and *Sino Knitting*), or co-contractors (*Sino Copper*, *Sino Motor*, and *Sino Construct*). These partnership experiences enabled them to develop and accumulate technology and other capabilities, and mitigated information asymmetry problems in CBMAs.

However, all of these CMNEs noted that they struggled to enter the high-end market, partly due to lack of design ability and technologies for this market (e.g., the capacity for initial innovation of entirely new products). They also suffered from low customer recognition in high-end markets, and from a lack of comprehensive international experience among management.

4.2 The asset profiles of the Western targets

At the country level, the positive image of the Western target firms' home countries as well as the 'craftsmanship spirit' perceived as part of their home countries' working culture were sought by the CMNEs in 11 cases.

At the firm level, the case CMNEs saw technologies and products for high-end markets (in 11 cases), R&D capacity (in 12 cases), and brands (in 10 cases) as desirable strategic assets. *Sino Copper*, *Sino Motor* and *Sino Construct* also value alternative production bases as means of avoiding trade barriers.

Despite their possession of advanced technologies, reputable brands and excellent customer bases, none of the acquired Western companies was able to continue business without additional investment. They were under pressure from competitors in emerging markets mainly due to those competitors' cheap labour advantages and incremental innovation capabilities. The Western firms had responded to this competition by positioning themselves as upscale brands, gradually giving up lower-end and medium markets. As a result, they ultimately found themselves at the peak of the segmentation pyramid serving a small group of customers in niche markets. This was especially true of *West Outdoor*, *West Tool 2*, *West Tool 3*, *West Knitting* and *West Metal*. Although they achieved high margins per unit in this segment, shrinking sales volumes meant that earnings could no longer cover fixed costs and investments, and left them unable to finance further development. In addition, managerial problems such as poor cost management, unfavourable investment decisions, and limited product diversification were observed in 10 target firms, while ownership issues like succession problems, unwillingness to invest further, or the desire of former owners to cash out were seen in 10 target firms.

4.3 Bundling of the acquired strategic assets with the CMNEs' assets

In manufacturing industries, the CMNEs and Western firms went in opposite directions. The former positioned themselves in the mass market fighting for quantity and price, the latter in high-end markets with shrinking customer numbers. The CMNEs were first-class manufacturers (all eight CMNEs), ingenious imitators (*Sino Textile* and *Sino Knitting*), excellent process and cost optimisers (all but *Sino Metal*), and customer-oriented incremental innovators (all but *Sino Metal*), whilst their targets were long-tradition brands (all but *West Copper Retail* and *West Construct*), first-class designers with craftsmanship spirit, and original innovators. The significant differences in asset profiles between the Chinese and Western firms created significant potential for resource optimisation via asset bundling.

Of the 121 potential pairwise combinations of asset type bundling, 45 pairs are empirically found in our cases. On the level of asset type sets, there are 36 potential pairwise combinations of asset set bundling, of which 17 are empirically evidenced in our cases (see Table 6). This clearly shows that CMNEs intensively used their CSAs and FSAs to bundle target strategic assets.

The 45 asset type bundling pairs are split into 15 horizontal, 10 vertical and 20 other asset type combinations. While vertical asset bundling, such as the combination of Western R&D and product design with Chinese production or the pairing of Western products with the Chinese home market, are widely recognised in the literature, horizontal asset bundling practices such as bilateral technology transfer and cooperation in R&D and innovation provide new insights.

4.3.1 Horizontal asset bundling

The horizontal asset bundling combinations are found in or near the diagonal in Table 6. Horizontal asset bundling is seen within all categories of assets apart from financial due to the Western target firms' lack of significant financial resources.

Horizontal bundling of country-level assets (set 1 ← set 1)

There is empirical evidence for five pairwise *country asset combinations (set 1 ← set 1)*,¹ with the strongest evidence being for the combinations of ‘country image ← big home market’ (A1),² ‘high-end market ← big home market’ (C1), and ‘craftsman spirit ← big home market’ (D1).

Positive country image and craftsman spirit in particular were bundled with large home markets in order to exploit the market potential of the target firms’ products in China.

‘If a manufacturing tool is labelled with ‘Made in Germany’ or ‘Swiss Made’, Chinese consumers will like it. We don’t even need to invest big money in marketing it. That is why we like to target German and Swiss firms, e.g., we acquired West Tool.’ (Vice president, Sino Tool)

Horizontal bundling of R&D assets (set 2 ← set 2)

At the firm level, there are six empirically evidenced *R&D resource combinations (set 2 ← set 2)*. The most strongly evidenced combinations are ‘technology ← technology’ (E4), ‘product ← product’ (F5), ‘R&D and innovation ← R&D and innovation’ (G6) and ‘technology ← product’ (E5). Our interviewees strongly emphasised bilateral resource redeployment in R&D, which benefits both sides.

Our data show that Chinese acquirers used the technological advantages of their targets to rapidly improve their own technology in order to maintain their front-runner status in their home market against Chinese competitors. At the same time, they helped the targets adapt their technology to become more customer-oriented and cost-optimised (observed in nine cases). *West Knitting’s* engineers helped *Sino Knitting* to efficiently upgrade its knitting machines for large-scale factory production, while *Sino Knitting’s* engineers encouraged *West Knitting* to simplify its machines by abandoning rarely used features in machines used to produce for Asian markets, thus lowering costs and improving global market positioning. This cooperation resulted in a win-win situation – *Sino Knitting* kept its technology lead against imitators, and *West Knitting* was able to serve a broader clientele globally.

In addition, CMNEs also combine products from both sides to comprehensively serve all market segments.

‘Since the takeover, we now have the West Outdoor series for high end customers and Sino Outdoor’s own brands for mid-market and low-end clients. Together, we can cover the whole Chinese market.’ (CFO, West Outdoor)

After their respective acquisitions, *Sino Outdoor* and *Sino Motor* increased their investments into both low-end products in China and the high-end products of their acquired firms.

The initial innovation power of Western firms bundled with the cost optimisation and customer-oriented innovation of Chinese firms created positive results. All CMNEs except *Sino Metal* cooperated closely with their targets. *Sino Outdoor*, *Sino Tool*, *Sino Textile* and *Sino Knitting* had extensive experience in co-innovation, and interviewees explained that combined innovation was more creative, cost-saving and customer-oriented.

‘We Swiss used to design very complex machines ... the Chinese told us to remove several functions because they were superfluous...Together, we can make machines cheaper and more appropriate to customers’ needs...’ (CEO, West Knitting)

Sino Outdoor and *West Outdoor* launched more than 100 new products with three new materials. Together with the acquired brand firms, *Sino Tool* created customised toolboxes for different industry sectors, such as car repair centres and furniture installation firms.

Horizontal bundling of manufacturing assets (set 3 ← set 3)

Combinations of *manufacturing assets (set 3 ← set 3)* appear in nine cases. Many of the Western managers feared that their existing factories would be closed following the acquisitions. However, in many cases, CMNEs not only kept the Western factories operating but made efforts to improve and increase local production. They bundled the Western production with their own, rather than moving all production to their home country facilities, for several reasons: First, to serve high-end markets and thus to become a brand and full-range provider; and second, to avoid 'liability of origin' and trade barriers; and finally, to solve the high production cost problem of the targets.

All Western target firms with production facilities except *West Tool 4* increased their production through mutual exploitation of the Chinese middle and high-end markets. *Sino Textile*, *Sino Knitting* and *Sino Motor* organised joint production with their target firms, whereby key components of specific machines were produced by the targets and other, more standard components by Chinese firms. Thus, they obtained the desirable country labels of the target firms and reduced the costs of high-end products. *Sino Copper* and *Sino Metal* used the acquired production facilities to serve customers in countries which imposed anti-dumping taxes on Chinese products, while their Chinese factories produced for customers in the rest of the world.

'We kept all West Copper Process's factories (in Europe and Thailand). We need them to produce for European and US markets so that we can avoid trading discrimination. Our factories in China serve the rest of the world' (Head of overseas investment, *Sino Copper*)

Horizontal bundling of marketing assets (set 4 ← set 4)

Our case CMNEs and their target firms bilaterally redeployed *marketing resources (set 4 ← set 4)* to open new markets for each other's products. They aimed to exploit the potential value of Western brands by bundling them with the acquiring firms' own marketing skills and distribution channels in their home market (observed in 11 cases). The promise of protecting the traditional brands and paving the way for their entry into the Chinese market was one of the most convincing arguments throughout the bidding and acquisition process. *West Outdoor*, *West Tool 1*, *West Tool 2* and *West Textile* all faced Western competitors which were eager to acquire them and to extinguish their traditional brands. Preserving these brands was a decisive factor in favour of the Chinese bidders in these cases.

'We were West Tool 1's OEM-partner, not a competitor. If West Tool 1 had been sold to their competitor Big Tool, it might only survive for a few years; in the long run, Big Tool would have had no rivals in the market after the merger and would have assimilated West Tool 1 into their own brand – a taboo for a century-old brand. Sino Tool's brand is too weak. After the merger, West Tool 1's brand can continue. For the inheritors of family companies with century-old brands, the first concern is not money, but the continuation and positive development of the brands.' (Vice President, *Sino Tool*)

Along with the mutual reconfiguration of existing marketing resources, CMNEs and their targets also jointly explored new markets. Since *West Outdoor's* brand was only well

known in the German-speaking areas of Europe, *Sino Outdoor* decided to ‘Europeanise’ the *West Outdoor* brand by promoting it in other European countries such as France, Italy and the UK. *Sino Tool* and its acquisitions *West Tool 1* and *West Tool 2* also jointly entered various new European markets.

Horizontal bundling of managerial assets (set 5 ← set 5)

Bilateral redeployment of personnel and managerial capabilities (set 5 ← set 5) is often observed; personnel exchanges between CMNEs and their targets were frequent.

4.3.2 Vertical asset bundling

Vertical asset bundling refers to resource combinations across business processes. The most common vertical combinations seen in our case studies were those of *R&D resources and manufacturing resources (set 2 ← set 3)*, *R&D resources and marketing resources (set 2 ← set 4, set 4 ← set 2)* and *manufacturing resources and marketing resources (set 4 ← set 3)*.

Vertical asset bundling is seen between the products of Western target firms and Chinese production and between the R&D and innovation of Western targets and Chinese production. This combination is the logical result of the reorganisation of global supply chains triggered by the industrialisation of emerging market economies. All case CMNEs applied this kind of asset bundling. *Sino Tool*, *Sino Copper* and *Sino Metal* reintroduced numerous retired products that their targets had once successfully produced for mass markets but later suspended due to fierce price competition, to help them return to the medium and lower market segments.

‘West Metal has more than 3000 products in its catalogue. Owing to the rising labour costs, it has recently only been producing around 30 products. Since the takeover, we have reactivated dozens of sleeping products with our Chinese factories. The market feedback shows the combination of Swiss design and Chinese production is competitive. Thus, we plan to revive an additional 1000 products.’ (Vice president, Sino Metal)

Bundling these assets enhanced the efficiency and competitiveness of the target firm and enriched the product range of the combined business.

Vertical bundling between R&D resources (set 2) and marketing resources (set 4)

The bundling of R&D and marketing resources was common in both directions; that is, R&D resources from targets were bundled with marketing resources from CMNEs (*set 2 ← set 4*) and R&D resources from CMNEs were bundled with marketing resources from targets (*set 4 ← set 2*). This symmetrical redeployment of resources suggests that acquiring and acquired firms exchanged resources to build upon their respective strengths.

By combining Western technology, products, and innovation with the marketing resources of CMNEs, Western targets gained opportunities to enter the Chinese market and other Asian markets. This is consistent with Hennart’s (2009, 2018) theory that control over untradeable local assets – such as market access and customer relationships – enables CMNEs to bundle technologies from Western firms. *West Outdoor*, *West Textile*, *West Knitting* and *West Construct* all benefitted from this sort of asset bundling,

while *Sino Outdoor* and *Sino Tool* used the sales channels of their targets to enter higher-end markets and climb to higher levels in the value chain.

'We rent extra-large stands at various trade fairs in Asia and Europe to promote the products of our US daughter firms. The sales manager of West Tool 1 told me, the former shareholder had never invested so many money for such events outside America. Now the brands of all these daughter firms are available on Asian markets.' (Vice president, *Sino Tool*)

Vertical bundling between marketing resources and manufacturing resources (set 4 ← set 3)

All case CMNEs and ten Western targets were involved in the bundling of long-lasting traditional Western brands with Chinese production and cost management. This combination of assets frequently predated acquisitions, in the form of outsourcing contracts (OEM/ODM contracts) in which Western firms took the lead and CMNEs played the role of low-cost partners. After the acquisitions, CMNEs internalised Western brand firms through CBMAs and took the lead as integrators. Reviving Western brands and keeping them valuable, maintaining efficient production, and maximising margins were the overarching bundling goals.

4.3.3 Other types of asset bundling

Outside the categories of either horizontal or vertical asset bundling, we find combinations of the country-level resources of Western targets and Chinese manufacturing resources (*set 1 ← set 3*), particularly the bundling of Western craftsmanship spirit with Chinese production (10 cases) through which the production quality of CMNEs has improved.

Combinations of the country-level resources of the targets and the marketing resources of the CMNEs (*set 1 ← set 4*) is clearly documented by this quote:

'Our Chinese marketing team initialised an online program by which we introduced the history, customs, technologies, and innovative spirit of Switzerland via multi-media. The 'Quiz about Switzerland' was very popular, since winners could obtain our outdoor products as rewards. Such activity helps to promote the 'Swiss DNA' in our group.' (CFO, *Sino Outdoor*)

There is significant evidence for the bundling of Western technology with the Chinese home market (*set 2 ← set 1*), in particular Western technology with Chinese labour, Western products with the Chinese market or with Chinese labour, and Western R&D and innovation resources with the Chinese market.

The combination of Western marketing resources with Chinese country-level resources (*set 4 ← set 1*) is evidenced, too, particularly bundling of Western brands, reputation, and established tradition with the Chinese market (10 cases). Through this bundling, CMNEs developed the value of Western corporate brands for the Chinese market.

Finally, there are combinations of diverse resources of the Western targets with financial resources from China (*sets 1, 2, 3, 4 ← set 6*). *Sino Motor* helped *West Motor* build a new research centre in Germany to speed up the industrialisation of R&D products. Keeping up on financial promises turned out to be the most convincing way to provide new perspectives to the target company, to build up trust between CMNEs and the target firms, and to avoid brain drain.

'The most important is to gain the trust of acquired firm and vice versa... In our industry, people have witnessed few acquisitions conducted by Asian firms. They closed down European factories once the technologies had been transferred. Many local people lost jobs. That's what people are afraid of. I convinced the chairman of Sino Knitting to buy additional land for the extension of the R&D and local production. He also granted more money for marketing and sales in Europe. This action stopped the resignation wave... Each year, Sino Knitting keeps pumping resource to Swiss daughter. Finally, local newspapers reported very positive about this Chinese takeover.'
(CFO, West Knitting)

5 Discussion

These 12 case studies provide insight into how CMNEs systematically leverage and realign their own and their targets' assets to meet the requirements of the global market.

Our research confirms that CMNEs possess the commonly recognised CSAs such as a large home market, availability of cheap labour, and governmental support (Hennart, 2009; Luo et al., 2010; Wang et al., 2012; Bose et al., 2021). However, it contradicts common assumptions that CMNEs do not have significant FSAs (Rugman, 2009) or that they possess only ordinary resources (Luo and Child, 2015; Zhou et al., 2019). Our findings instead indicate that each of the case CMNEs possessed well-developed knowledge-related FSAs prior to their acquisitions of Western firms (He et al., 2019); their production efficiencies allowed them to deliver competitive products for mass markets, and some were also able to succeed in high-end markets. They were also highly successful in incremental innovation and in customer-driven innovation. Thus, while we do not dispute the accuracy of recent findings that EMNEs may on average still have fewer FSAs than their Western counterparts (Bose et al., 2021), our research does show that CMNEs do have their own well-developed FSA bases.

CMNEs source strategic assets through CBMAs in DEs to gain international competitiveness. They typically target Western companies with resources that complement their own (Luo and Tung, 2007; Deng, 2009; Cui et al., 2014), including (1) technologies and brands that gave them an edge over their competitors in China; (2) an upgraded product range and (3) access to the Western and global markets. The interplay of their CSAs and FSAs enables them facilitate asset bundling activities in DEs. This asset bundling not only addresses the competitive disadvantages of CMNEs, but also helps the target Western firms to reduce production costs, enhance technology for broad markets and succeed in the Chinese market. Bids from Western competitors can rarely offer this kind of combination of CSAs and FSAs.

Three categories of asset bundling were seen in our case studies: 'horizontal asset bundling', 'vertical asset bundling' and 'other asset bundling' (Capron and Mitchell (1998).

Horizontal asset bundling was observed to create synergies in operations and growth, enhancing efficiency and market power and leading to the expansion of the combined business. For example, several case study firms optimised production lines using horizontal bundling of production facilities, either using acquired Western firms and CMNEs' own facilities to produce different components for the same products, or using the combined capacity to standardise production of the same components for different products serving different customer segments. Production cooperation of this kind

enables the integrated companies to efficiently cover a broader range of customer segments. Several case firms achieved increases in market power by combining the image of Western countries, and specifically of Western craftsmanship, with a big home market and the ability to combine products to serve both markets. By integrating Western and Chinese products, the combined manufacturing firms were able to serve a broader range of customer segments, increase their market influence, and move toward becoming full-range providers. Synergies in growth were similarly created through joint marketing, mutual technology support, and joint innovation. Combining Chinese and Western markets and marketing resources enables both the acquirer and acquired firms to support each other's entry into new markets and to jointly enlarge their customer bases.

Our study also provides evidence that technology integration and transfer between CMNEs and Western targets, in contrast to the academic consensus and mainstream perceptions, occurs in both directions. Case CMNEs appeared to be flexible and dynamic experts in mass-market production, with substantial customer-driven and cost-optimised innovation power. Western manufacturing targets stood out for their craftsmanship, specialised high-end and niche products and capacity for initial innovation. These two sets of advantages complement each other, allowing the combined business to optimise technology and accelerate product development. Together, Chinese and Western firms developed cutting-edge new products, as seen in the mutual product development and joint innovation undertaken by *Sino Knitting* and *West Knitting*.

Vertical asset bundling, meanwhile, results in cost savings, business stabilisation and enhanced brand and product competitiveness. The combination of Western products with Chinese marketing skills and sales channels enables Western companies to either enter the Chinese market or enlarge their market share in China.

Other asset bundling creates operational synergies. Western country image, technology and products combine with efficient Chinese manufacturing skills to grant the combined businesses improved reputation and cost-efficiency.

The operational, collusive, and growth synergies created by Chinese companies through CBMAs cannot easily be copied by Western competitors standing alone.

6 Conclusion

While existing literature has noted that Chinese companies are motivated to acquire and integrate strategic assets (Child and Rodrigues, 2005; Deng, 2007; Rugman and Li, 2007; Rui and Yip, 2008; Deng, 2009; Zheng et al., 2016), our study sheds light on what specific assets they are looking for, what kind of initial asset profiles enable them to fruitfully make use of these assets in combination with their own existing resources, and how they bundle the acquired assets with their own assets to create economic value.

6.1 Theoretical contributions

We contribute to the existing literature in four key areas. First, we concretise the concept of 'SAS', initially proposed by Dunning (1993), by introducing a refined 6-set, dual-perspective asset analysis. This framework provides a complete picture of the asset profiles of firms on both sides of the acquisition process. Putting SAS into the context of the specific CSAs, FSAs, and asset bundling activities of CMNEs, our study provides evidence for the individual nature of the 'strategic asset', helping to explain the critical

role of SAS in internationalisation. Second, we confirm and extend Hennart's (2009, 2018) bundling theory by showing that the interplay of CMNEs' CSAs and FSAs, rather than their CSAs alone, determines effectiveness in the acquisition and bundling of Western assets (Ramamurti, 2009; Marinova et al., 2011). Third, we identify how CMNEs are able to move beyond leveraging ordinary resources (Luo and Child, 2015; Zhou et al., 2019) and create their own advanced technologies and bundle VRIN assets in DEs. Fourth, we provide empirical evidence for CMNEs' ability to create private synergy (Barney, 1988) through asset bundling activities. CMNEs in our case studies bundled Western brands not only with the large Chinese market, but also with their own financial, production, cost-optimisation, innovation and marketing resources. They revitalised Western brands through product line extension and market development. Bidding competitors from DEs often had asset profiles similar to those of the target firms and therefore could not present a bundling case as complementary as that offered by the Chinese counterpart.

6.2 Managerial implications

Our study has managerial implications for companies from DEs as well as those from emerging countries. Patterns in the asset bundling activities of CMNEs can help Western managers better understand the internationalisation approaches of Chinese companies. In contrast to widespread assumptions that Chinese acquirers conduct one-way know-how transfer to China (Di Minin et al., 2012; Ciabuschi et al., 2017; Peng et al., 2017) and close down Western business bases to reduce their labour cost (Raess, 2019), our study provides evidence that technology exchange, joint innovation and additional investment in target companies occurred in almost all cases. The Chinese companies maintained the acquired Western companies as their centres for high-end markets in product design, R&D, marketing and production. They also kept and used Western brands for marketing purposes. We find strong evidence that CMNEs often combine resources from both sides to reconfigure the business and create mutually beneficial results, rather than simply obtaining resources from the targets for their unilateral benefit. Managers of EMNEs may also find helpful insights, including the importance of highlighting potential for private synergy and mutual benefits when making bids to acquire Western companies. This finding may also contribute to current political discussions regarding the question of whether Western countries should regulate Chinese acquisitions.

6.3 Limitations and further research

This study has some limitations, which also indicate avenues for further research. First, there might be a success bias. Almost all cases were successful in acquisition and asset bundling. Of the 12 cases, 11 resulted in combined revenue and profit growth and customer base expansion. Other studies have shown that CBMAs of CMNEs often fail (Zhang et al., 2021). It is expected that managers of successful businesses are more willing to participate in interviews than managers of less successful businesses, but to get a more complete picture, an analysis of acquisition failures would be highly beneficial. Second, we only investigated Chinese manufacturing firms. CMNEs in other industries, such as IT and communication or finance, may have different asset profiles and different asset bundling behaviours. Furthermore, because our case studies covered manufacturers in four different industries, our sample size in each industry is too small to identify

possible differences in bundling strategies between the industries. Third, we did not connect the case firms' overall corporate strategies with their SAS and asset bundling activities. Similarly, we also ignored dynamic development in the case firms' asset bundling activities over time. Finally, we only investigated POEs, based on the assumption that these are more transparent and driven more by entrepreneurial motives and less by political motives. However, we believe a systematic investigation of the differences between POEs' and SOEs' asset bundling practices is a worthwhile question for further study.

Future research should put SAS into its strategic context and investigate the link between the corporate strategies of EMNEs and their asset acquisition and bundling. It should also examine the dynamic evolution of CMNEs' post-acquisition integration which only few studies have touched upon (Yang and Lütge, 2019; Zhang et al., 2020).

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Notes

- 1 We put the assets of the target firm before the arrow, and the assets of the Chinese POE behind the arrow, indicating the direction of the acquisition.
- 2 The combinations of letter and number in brackets indicate the coordinates of the cells in Table 6.
- 3 CSDA for country-specific disadvantage.
- 4 FSDA for firm-specific disadvantage.