M&A by Chinese POEs in Developed Countries - Acquiring and Bundling Strategic Assets

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March 2020

Abstract: Building on the resource-based view and based on 33 interviews with top executives of 11 Chinese private owned enterprises (POEs) and 15 Western target companies, this study is an in-depth multi-case analysis of Chinese cross-border merger and acquisitions. While literature has argued that acquisitions by Chinese companies in developed countries are motivated by asset-seeking, this study takes a more detailed look and investigates which exact assets are sought by POEs. Still a majority of the literature states that Chinese companies largely depend on their country-specific assets much more than on firm-specific assets. Our study contradicts this view and shows that in many cases Chinese acquirers possess valuable firm-specific assets. Knowing the specific asset profile of the Chinese POEs, their assets and gaps, helps understand what assets they seek when they acquire Western companies. Furthermore, our study shows how they bundle strategic assets of acquired companies in developed countries with their own assets to create synergies. Different from the common view, our study provides evidence that technology transfer between Chinese POEs and Western targets went in both directions.

Keywords: Cross-border M&A, Strategic Assets, Asset Bundling, Chinese MNCs, EMNC

JEL Classification: M16; F23
1. Introduction

Chinese multinational companies (CMNCs) are notable for their extensive M&A activities in overseas countries. Strategic asset seeking is one of the most important motivation of their M&A deals in developed countries (DCs) (Child and Rodrigues 2005, Deng 2007, Rugman and Li 2007, Rui and Yip 2008, Deng 2009, Zheng et al. 2016).

The active participation of Chinese companies in cross-border M&A (CBMA) actually started in the global financial crisis in 2008 (DealGlobe 2018). Due to its relatively small impact on the emerging markets such as India and China, the crisis brought historical opportunities for companies from emerging markets to take part of the global capital competition (Sauvant et al. 2010). Between 2010 and 2016, China increased its number of completed CBMA transactions from 146 to 573 annually and reached its peak in 2016. The CBMA deals closed in 2016 involved 74 countries/regions (MOFCOM 2017) and the top ten regions with the largest number of Chinese CBMAs were concentrated in developed industrial countries such as the United States, Hongkong, Germany, Australia, Britain, France, Italy, Singapore, South Korea and Canada. Among the top 50 M&A deals in 2016, 80% took place in industrial countries and 62% of these were driven by “strategic asset seeking” motivation (DealGlobe 2018). The extant literature emphasizes that CMNCs use CBMAs to seek strategic assets in industrial countries to overcome latecomer disadvantages and to address competitive weakness in world markets (Deng 2007, Luo and Tung 2007, Deng 2009, Liu and Woywode 2013, Nicholson and Salaber 2013).

However, the flurry of aggressive M&A activities conducted by CMNCs has upset host countries. The mistrust towards Chinese investors has begun to be felt on both sides of the Atlantic. Starting 2016, the Committee on Foreign Investment in the U.S. (CFIUS) has blocked several acquisitions involving Chinese buyers of American technology companies. In November 2018, the European Union set up a committee in charge of scrutinizing foreign investments in Europe, which aims mainly at China. The Western world is concerned that allowing acquisitions of domestic companies in cutting edge technology sectors could disrupt the race for technological supremacy in a free market and put national security at risk.


Despite the rich extant research, the existing literature tends to discuss generic characteristics of strategic assets and treats them as an abstract and context-free concept including a wide range of resources and capabilities such as technology, R&D, talents, brands, client relationship and management capabilities (Deng 2007, Luo and Tung 2007, Deng 2009, Lu et al. 2011). However, what strategic assets a company
is looking for depends on its initial asset portfolio. For example, firms with different countries-of-origin may seek different strategic assets (Capron et al. 1998, Nicholson and Salaber 2013), because they possess different original country-specific advantages (CSAs) and firm-specific advantages (FSAs). Also, Stucchi (2012) argued that firm’s resource-, institution- and industry-based antecedents can influence emerging economy companies’ behavior by bundling and absorbing technological and/or marketing advantages in advanced market. There is little research that systematically examines the nature of strategic assets that CMNCs acquire through CBMAs in DCs and how these assets are bundled with the firms’ prior resources and capabilities. The only work dealing with the topic that we are aware of is the multiple case study by Zheng et al. (2016).

Furthermore, empirical studies of the CBMAs of CMNCs are heavily weighted towards aggregate data and/or data of Chinese state-owned enterprises (SOEs). Research on Chinese private-owned enterprises (POEs) as a separate group in international business is quite rare. This is partially due to the difficult access to the specific set of data. Growing up in squeezed markets monopolized by Chinese SOEs and Western companies (Morck, Yeung et al. 2008), and having had governmental permission for outward foreign direct investment (OFDI) since 2002, Chinese POEs are latecomers in the international business even compared to Chinese SOEs. Despite their lagged position, Chinese POEs have played a significant role in international business. Overseas M&A is an important approach for them to hunt strategic assets (Lu et al. 2011). According to KPMG, 76% of the 489 cross border M&A deals closed by CMNCs in 2015 were done by Chinese POEs (KPMG 2016). The strict scrutiny by Western governments will prevent firms with the so-called “red phobia” (Xiao and Liu 2015) – the SOEs and the companies tightly linked to the Chinese government – from acquiring Western companies, but will not stop the internationalization of Chinese POEs as they are more likely to play after the rules of the free market. As a vividly growing force in the international business, Chinese POEs may replace the Chinese SOEs as future OFDI-leader. Therefore, close observation and analysis should be undertaken.

The purpose of our paper is to study the managerial action of asset bundling from a dual perspective, the acquiring as well as the acquired company, in order to answer the following questions: What strategic assets do Chinese POEs try to obtain through CBMAs in DCs? What assets that create bundling potential do Chinese POEs possess prior to the CBMAs? How do they bundle the acquired strategic assets with their own resources and capabilities to build up competitive advantages and create synergies?

To answer these questions, we go beyond Zheng et al. (2016), starting with investigating the resource management and the dynamic asset bundling capabilities of CMNCs. Although the strategic asset seeking CBMAs conducted by Chinese POEs are certainly idiosyncratic in their details, they do have commonalities in their asset exploration activities as well as in building up, maintaining and executing capabilities, due to the fact that Chinese POEs have grown up in the special transition environment in China and that they have been experiencing globalization and the fourth industrial revolution (Bloem et al. 2014). As Eisenhardt and Martin (2000) stated, effective dynamic capabilities can differ in forms and details but the important commonalities are present. Discovering and exploring these commonalities to
reveal “best practices” will not only help enterprises in DCs to get prepared for future competition from emerging economies (EMEs), but will also inspire companies from DCs as well as from EMEs to seek reasonable cooperation based on complementary resources. Our work enriches the existing literature with empirical insights into Chinese POEs.

By means of 15 case studies, we explore the strategic asset seeking M&A activities of Chinese POEs in DCs with focus on their strategic asset bundling behavior. Our research data were drawn from 33 interviews (multiple field interviews conducted in three continents plus telephone interviews) with top executives and company owners from Chinese multinational POEs and their acquired companies in Europe and USA. Combining the resource-based view with the dynamic capability view we examined 121 pairwise asset combinations and found evidence for 47 pairs. We explored how the Chinese POEs bundled the strategic assets from the Western targets with their own assets to create additional value and synergies and to develop new firm-specific capabilities.

This paper is structured as follows. Section 2 discusses the theoretical background. Section 3 introduces the research design including case evidence and data discussion. Section 4 reveals empirical findings which are discussed in Section 5. The study ends with a conclusion, the implications and limitations (section 6).

2. Theoretical background

2.1. Assets, strategic assets and strategic asset seeking

According to the resource-based view (RBV), companies can be conceptualized as a bundle of resources and capabilities (Wernerfelt 1984). Due to the asset heterogeneity and the imperfect mobility of certain assets, different asset bundle endowments make companies different (Penrose 1959, Barney 1991, Amit and Schoemaker 1993, Peteraf and Barney 2003, Crook et al. 2008). RBV has become a very popular theoretical perspective to explain performance differences (Newbert 2007). It is common view that firms from emerging countries have asset profiles which are strongly linked with their CSAs such as cheap labor, large domestic market, special relationship to government and local resource, rather than profiles with strong FSAs, whilst firms from developed countries tend to have pre-dominantly specific intangible assets such as high technology, management skills, brands, etc. (Rugman 2009, Stucchi 2012, Hennart 2015a, Hennart 2018). Ramamurti (2009), however, pointed out that EMNEs also possess FSAs like production and operational excellence as well as product development suited to emerging markets, etc.

In the RBV literature, “assets” and “resources” are sometimes treated as overarching concept and subconcept against each other, sometimes as synonyms. One scholar group regards “resources” as overarching concept which includes among others assets, capabilities, organizational processes and knowledge controlled by a firm (Daft 1983, Barney 1991). Another scholar group regards “assets” as overarching concept which includes among others resources and capabilities that a company owns (Dunning 1980, Amit and Schoemaker 1993, Rugman 2007). A third group (Caves 1980, Hennart 2009,
Hennart 2012) uses “assets” and “resources” as interchangeable synonyms. We join this group and consider both terms synonymous.

Strategic assets refer to those resources that are valued by the firm for their potential to contribute to competitive advantage (Amit and Schoemaker 1993). Barney (1991)’s VRIO framework explains the link between strategic assets (in the VRIO framework labelled as resources) and sustainable competitive advantages. Barney suggested that strategic assets meet certain criteria (valuable, rare, inimitable, non-substitutable) and that they get leveraged to create competitive advantages, which in turn confer performance advantages. Strategic assets include reputation, buyer–supplier relationship, tacit knowledge, R&D capability, brand name and proprietary technologies (Teece et al. 1997, Barney and Arikan 2001). Strategic assets may be obtained through M&A (Barney 1986) or built up through cumulative firm experience and “learning by doing” (Dierickx and Cool 1989). Amongst various options for multinational firms to access and source strategic assets, OFDI is arguably the most effective way (Wesson 2000, Chung and Alcácer 2002).

More and more Chinese companies address their competitive disadvantage by accessing and sourcing strategic assets through CBMAs (Deng 2009). By testing hypotheses in the Chinese context, Cui et al. (2014) delivers the empirical evidence for that private ownership is positively related to a firm’s strategic asset seeking intent in FDI.

There are plenty of reasons why CBMAs are a preferred way of accessing strategic assets. CBMAs are viewed as the “fastest means of reaching the desired goals” (Boateng et al. 2008) and a springboard to catch up with the Western incumbents (Luo and Tung 2007). Acquisitions serve as a substitute for innovation (Hitt et al. 1990). For example, firms often acquire target companies with technology different from their own, adding to their product line without the high risks involved in internal development. CBMAs provide access to multiple assets such as advanced technology, long-traditional brand, management skills and internal learning through bundling and integrating the acquired assets. Furthermore, as strategic assets are subject to market failure, CBMAs can help the acquirer manage this risk (Zheng et al. 2016).

Strategic asset seeking driven FDIs are riskier than other FDIs and can earn substantial returns only in the longer term (Rui and Yip 2008, Luo and Rui 2009). They represent important resource management processes and highly innovative and entrepreneurial activities. Although CBMAs of CMNCs with asset-seeking motives have been acknowledged in the literature (Child and Rodrigues 2005, Deng 2007, Rugman and Li 2007, Deng 2009, Luo and Rui 2009), “strategic asset” has usually been understood as a context-free and abstract concept. Looking in more details into the nature of strategic asset seeking activities, we see that companies in the same industry seek different strategic assets and a specific external asset may be estimated as strategic for one company but not for another one. Hence, “strategic asset” is an idiosyncratic and contextual concept. For example, when the global financial crisis broke out in 2018, the margin dropped sharply in the copper processing industry. Large players in Western countries such as Wolverine and HitachiCable withdrew from the market and the industry moved mostly
to Asia. The strong R&D expertise in copper processing technology were no longer a strategic asset for European or US companies but highly desirable for the manufacturing firms in emerging countries. Combining R&D expertise with their manufacturing expertise makes the acquiring firms more innovative as well as more efficient in developing, producing and distributing their products.

2.2. Asset bundling

Each company’s asset portfolio is unique. The purpose of strategic asset seeking is not to obtain the asset per se, as possessing assets alone does not guarantee the development of competitive advantage (Barney 1991, Barney and Arikan 2001). Assets must be accumulated, bundled, leveraged and exploited. The full value of the acquired strategic asset can be realized only when the acquirer bundles it with its own resources and capabilities and manages the whole asset portfolio effectively towards competitive advantage (Sirmon and Hitt 2003, Sirmon et al. 2007, Sirmon et al. 2011). There is strong and unique interdependence between the acquirer’s assets and the target assets.

2.2.1. Bundling model

Hennart’s bundling model (Hennart 2009, Hennart 2012, Hennart 2015a, Hennart 2015b, Hennart 2018) is the extension of his transaction cost model (Hennart 1982). It intends to accommodate both the asset-exploiting and the asset-seeking FDIs - which neither the OLI paradigm of Dunning (1988), the LLL framework of Mathews (2006) nor the springboard model of Luo and Tung (2007) were able to do. The OLI paradigm of Dunning explains the “asset exploiting FDIs” of the DCs’ companies but cannot account for the asset-seeking FDIs by emerging market firms in DCs (Hennart 2012, Hennart 2018). Although the LLL framework and the springboard model show that a significant number of FDIs by emerging market multinational enterprises (EMNEs) are not made to exploit own firm-specific advantages (FSAs) but instead to acquire new specific advantages, they fail to explain why EMNEs are able to acquire new strategic assets of their rivals whilst at the same time competing with them in their home market (Hennart 2018). Hennart’s bundling model sheds light on that. He identifies the fact that under certain circumstances numerous EMNEs control complementary local resources which have high transaction costs or are even non-tradable (such as market access, special permissions, licenses, governmental support, etc.) whilst many intangible assets (such as cutting edge technology, valuable brand names, project management skills) controlled by firms of DCs’ are tradeable and negotiable in competitive markets. The “ownership” of the local bonded resource provides the opportunity for EMNEs to successfully bundle complementary strategic assets from DCs.

Rugman (Rugman 2008, Rugman 2009) suggested that Chinese MNEs are neither innovative nor competitive, thus their advantages and outward expansion lie with their monopoly position in their protected home market. Bhaumik et al. (2016) shared this view and argued that EMNEs possess few ownership-related FSAs, but many of them enjoy a range of CSAs that enable them to benefit considerably from internationalization, including CBMA activities.

But the view that EMNEs’ ability of bundling strategic assets in DCs is only enabled by exploiting home country-based CSAs and locally bounded resources does not provide a full picture of CMNCs’
internationalization. Recent IB studies on the rapid rise of some globally competitive Chinese EMNEs, including Haier (Meyer 2017), Huawei and ZTE (Fan 2011), and many other competitive MNEs based in other emerging economies (BCG 2016), indicate that taking this view makes it difficult to fully explain their rapid internationalization. Luo and Rui (2009) and Luo and Tung (2018) stated that a number of internationalizing Chinese companies own dynamic and ambidextrous capabilities, in contrast to Rugman’s and Hennart’s view. Marinova et al. (2011) used a multi-case study to reveal that the rapid internationalization of many CMNCs is driven by interplaying their home country CSAs and FSAs. He et al. (2019) found out that EMNEs’ knowledge and particularly their innovation-creating technological knowledge has contributed greatly to their successful internationalization.

An in-depth-study of the asset bundling behavior of CMNCs in CBMAs will help us better understand their internationalization ability.

In this perspective, the asset bundling is the active deployment of dynamic capabilities by an EMNE. Dynamic capability is defined by Teece et al. (1997) as the firm’s ability to integrate, build and reconfigure internal and external resources and competences to address rapidly changing environments. The theory specifically explains how value adding combinations of competences and resources can be developed, deployed and protected. It emphasizes that the resource-based theory as a whole must be understood in dynamic terms (Helfat and Peteraf 2003). Dynamic capability theory is suitable to study EMNCs (Xu and Meyer 2013, Dixon et al. 2014), since they typically face fast-changing environments and dynamic capabilities provide a mechanism for them to continuously adapt, adjust, or reconfigure their asset base in response to the rapidly changing market and institutional environment. Deng et al. (2018) identified four ingredients of dynamic capabilities, which are particularly relevant for EMNCs, namely, capability to recognize, leverage, learn and realign internal and external assets and to adjust them to international contingencies. In a CBMA driven by asset seeking motivation, an EMNC intends to reshape its resources and by bundling the assets from well-regulated developed markets with its own assets from a less developed but high-velocity market.

2.2.2. Asset bundling concept in CBMAs

Analyzing asset bundling concepts sheds light on how resources are connected with the strategy of EMNCs and how they are managed to create competitive advantage. Asset bundling plays a key role in the strategic asset seeking M&A process – be it in strategy definition, strategic asset identification, negotiation or post-M&A integration.

In the pre-acquisition phase, the acquiring firm assesses both its own assets and the assets they want to acquire. Screening, structuring and evaluating the own strategic assets is the first step in the preparation process for asset seeking acquisitions which contributes to a better understanding of the firm’s strengths and weaknesses, to identify missing resources and capabilities and to figure out what can be developed internally and what has to be acquired externally. How to bundle acquired assets with internal ones, how to simultaneously address company strengths and weaknesses in order to realize competitive advantage is next important step (Sirmon et al. 2010, Miao et al. 2017).
Based on these considerations, asset-seeking firms purposefully scan potential target assets and undertake comprehensive studies of targeted companies and their asset portfolio. Acquiring companies may have their own scouting team or they may outsource this task.

Acquiring strategic assets represents an investment intended to reconfigure business, in order to create economic value, especially through the development of synergies (Jensen and Ruback 1983, Harrison et al. 1991). It is far from being just a one-directional “channelling” process of adding external assets to the acquirer’s asset portfolio. A key success factor is a well-founded matchmaking asset bundling concept, including the right assets and the right way to bundle them. In contrast, a mismatch may ruin the acquiring and the acquired firm alike by wiping out value of both companies.

ReutersChina (2015) reported the story of “mismatching resource” in Weichai’s (a Chinese SOE) overseas acquisition. Weichai paid EUR 374 million to take over Italian luxury yacht maker Ferretti group. The initial bundling plan was to combine the technology for luxury yachts with the marketing power of Weichai in China. The Chinese market has the largest number of wealthy families in the world. Weichai deeply believed in a huge market potential of Ferretti yachts in China. Unfortunately, the reality turned out to be different. Chinese millionaires like to use luxury yachts for business meetings. Yachts serve as a status symbol rather than for family leisure time entertainment. Ferretti's yacht design was completely out of line with the specific demands of the Chinese market. After the take-over in 2012, Ferretti wrote red figures for four consecutive years and turned into profit after 2016 only, wasting plenty of Weichai’s resources. Weichai had to make substantial additional investments in design changes – benefitting from its rich funds as SOE - and it restructured its management. Asset mismatch was the main reason for Ferretti's troubles.

Potential acquirers are required to present their plan for the targeted assets in the negotiation phase. Beside the acquisition price, a convincing asset bundling plan makes a significant contribution to the ultimate decision. Barney (1988) argues that only the bidder who has the potential to bundle the target asset and to create “private” and uniquely valuable synergistic cash flows can earn the abnormal return in the M&A deals. The synergy is considered “private”, if other bidders don’t have such synergies by bundling the target asset. In CBMA deals, EMNEs are competitive with multinationals from DCs. Convincing private synergy results in a win-win-situation for both the acquirer and the target and might be the winning factor for the bid.

Implementing asset bundling, realizing the synergies and thus creating economic value happen in post-acquisition integration.

2.3. Conceptual framework of asset bundling

Based on the nature of asset bundling in CBMAs, we develop a conceptual framework (see figure 1), which contains 3 steps: (1) identification of strategic assets; (2) identification of pairwise asset bundling; (3) categorization of asset bundling.
Identification of strategic assets

Accurately identifying the asset profiles of acquiring and target firms, including assets and gaps, is the first step in our research, based on a asset typology. To RBV scholars, asset may be grouped in different ways. Dunning and Rugmann divided assets into two layers: local assets which refer to endowments at country level that can create CSAs and firm assets linked with ownership endowments that enable a firm to create FSAs. Capron et al. (1998) draw on prior literature to define a five set typology of assets which are comprised of R&D, manufacturing, marketing, managerial, and financial resources. We follow the avocations of Ramamurti (Ramamurti 2009, Ramamurti 2012) for multi-contextual variable analysis and Lattemann (2017) for multi-level analysis by combining the macro view of Dunning and Rugman and the micro view of Capron into a 6-set asset classification as follows:

Set 1: Country-level assets. All asset types linked to CSAs such as positive country image, big home market, cheap labour, craftsmanship spirit, highly skilled labour, government created advantage, etc.

Set 2: R&D assets, including technological capability, R&D capability, and the ability of product development and speed

Set 3: Manufacturing assets, including production ability and production cost structure

Set 4: Marketing assets, comprising brand, brand management, distribution channels, buyer-seller relationships, user base, customer service, business reputation

Set 5: Managerial assets, containing reporting system, planning tools, leadership and other general management skills (that firms require as part of their ongoing administration)

Set 6: Financial assets, including all financial means for operating and developing the company.
Identification of pairwise asset bundling

In the second step, the identified assets of the acquirers and targets are put into a matrix and the pairwise asset bundling from both sides (acquirer asset – target asset) are depicted. The matrix delivers details of bilateral asset deployment and reveals which types of resources offer potential for bilateral exchange that can result in business improvement.

In Capron and Mitchell (1998)’s explorative empirical study of 253 horizontal acquisitions involving North American and European firms, 100 pairwise asset bundling combinations between the acquiring and target firms are investigated. They found out that acquisitions often involve substantial technical and commercial integration of the resource and capabilities of the acquirer and target, while representing managerial and financial expansion of the acquirer.

Multinational companies from emerging markets have different initial asset profiles. Usually, they are latecomers in the international business missing advanced technologies and management skills and they must overcome the double hurdle of liability of foreignness (Hymer 1976) and liability of country of origin (Chang et al. 2009). Thus, the asset bundling activities of EMNCs should have different characters. Investigating the country-level and firm-level pairwise asset bundling in CBMAs conducted by Chinese POEs can help us understand how EMNCs reconfigure their resources through strategic asset seeking and bundling.

Categorization of asset bundling

Acquisitions in general have been conducted to create synergy and thus economic value (Jensen and Ruback 1983). Value creation implies a breakdown in the value additivity principle for the combined entities (Steiner 1975, Salter and Weinhold 1979). In the last step, we use the categorization of the pairwise asset combinations to investigate the synergy and value creation mechanism.

Inspired by Capron and Mitchell (1998), we discuss several aspects of the bundling results following three bundling categories - horizontal asset bundling, vertical asset bundling and other asset bundling.

- By horizontal asset bundling, we mean the pairwise combinations of resources that fall within the same asset sets.
- By vertical asset bundling, we mean the pairwise combinations of resources that commonly link vertically with each other in the commercialization process.
- The rest of pairwise combinations fall in the group of “other asset bundling”.

These different categories of asset bundles are often motivated by seeking different types of synergies. In a study on synergy building in takeover deals in the US, Chatterjee (1986) focused on three classes of synergies that contribute to value creation: 1. financial synergy, 2. operational synergy and 3. collusive synergy, which are related to capital cost reduction, production cost saving and price improvement of products and services respectively. In this study, we add to Chatterjee’s classification 4. growth synergy defined by Wöginger (2004) which relates to growth-driven elements such as
technology and innovation development, new market exploitation and exploration. These synergy concepts help to better understand the different categories of asset bundlings in CMBA.

3. Methodology

3.1. Research Design
Given the short internationalization history of the Chinese POEs, the limited research on their practices and the explorative nature of our study, we employ a multiple case study approach. Our empirical study is based on qualitative, semi-structured interviews and secondary data to explore the asset bundling activities of Chinese POEs in DCs. A detailed case study is a relevant strategy in analyzing real-life organizations (Robson and McCartan 2016) as it enables a much richer, deeper and broader understanding than a large sample quantitative approach (Morris and Wood 1991, Eisenhardt and Graebner 2007). As suggested by Birkinshaw et al. (2011), to understand the complexities of emergent and evolving phenomena, it is often inappropriate to engage in large scale, cross-sectional studies or reductionist methods in the absence of well-developed theory, whilst case analysis may be more pertinent. For our research, we choose to take the multiple case study approach because it has been proved to be able to give opportunities for replication and comparison (Eisenhardt 1989, Gao and Liu 2012, Yin 2013).

3.2. Data Collection
The focus of this study is on strategic asset-seeking acquisitions in developed countries. Switzerland is a small market but high in innovativeness (Schwab 2018). Thus, Chinese acquisitions in Switzerland are likely to be motivated by the search for strategic assets. This, and because the authors are based in Switzerland, led to such cases being the starting point for the data collection.

In order to identify acquisition cases, we first went through all Chinese CBMAs in Switzerland in the past 10 years by reference to newspapers, online news agencies, reports related to M&A of consulting companies. Thereafter we expanded our search scope to Chinese CBMAs in EU countries and in the USA. Initially, we identified 52 CBMAs conducted by Chinese POEs in DCs. The first author of this paper has long-standing working experience in M&A business and built up a network of Chinese experts (lawyers, consultants, investment bankers, entrepreneurs and functionaries in Chinese local governments, etc.), which permitted to collect within 10 months high quality first-hand information and secondary data of 15 cases concerning 11 Chinese POEs that took over 15 firms in DCs. The number of employees of the Chinese POEs varies from 3’000 to 18’000.

We set strict criteria for data collection: (1) primary data were collected through interviews, whereby we paid equal attention to the voices from the acquirer side as well as from the target side. We also considered the opinions from insiders (managers from acquirer and target) and outsiders (external experts such as lawyers, consultants, investment bankers involved in the deals). (2) Regarding data triangulation, beside primary data, secondary data such as internal documents provided by the
companies (including financial reports and company investor relationship reports, etc.) and external reports (including media reports, press reports about the M&A negotiations and integrations, etc.) were considered.

**Interviews**

In order to obtain fruitful and comprehensive information, we addressed three types of persons as our targeted interviewees: acquiring companies’ owners or/and top managers, targeted companies’ owners or/and top managers and external experts.

It is notoriously difficult to interview managers of Chinese companies (Zheng et al. 2016, Gao and Schaaper 2018). Such difficulty is rooted in the lack of media communication skills widely spread in the Chinese corporate world where headquarter-based managers are rarely used to being interviewed by unfamiliar persons. We observed that initial contact via email or telephone usually had been turned down and interviews request had been rejected. Born in a hierarchical culture by very old tradition, managers in Chinese companies’ overseas subsidiaries avoid interviews without getting formal green lights from their parent companies.

To get around this problem, we had to set up a sequenced action plan to conduct our interviews. In the first place, based on the network of the authors, we sent our interview requests to the external experts (who were involved in at least one acquisition deal in CBMAs related to Chinese POEs), asking them to help us get touch with Chinese decision makers and to invite them for an interview to discuss their experiences. These experts were not only our interviewees but also our intermediators who introduced us to Chinese companies’ interviewees. Having experience in cooperation with Chinese POEs as business partners, either as consultants, lawyers or governmental regulators, these experts enjoy good “Guanxi” with the Chinese POEs. “Guanxi” refers to the web of connections in personal and business relations which is an important social network tool in China (Park and Luo 2001). The experts’ “Guanxi” made it possible to organize high quality interviews in China with companies’ top managers and owners.

With the goal of creating a friendly and relaxed environment for our interviews, we invited the Chinese interviewees for lunch meetings and raised our questions there. Prior to the interviews, we had prepared a short description of the aim and the scope of our research which we sent to our interviewees. We did not strictly confine our discussion to the pre-established question list but undertook a rather open approach to enable the most organic and unconstrained responses of interviewees possible. This proved to work very well. The Chinese interviewees were informative and delivered us sincere and straightforward talks. Almost all of our questions got answered. Furthermore, the interviewees shared with us insightful stories about the development, internationalization and innovation of their firms and some of them even disclosed future expansion strategies and invited us to visit their headquarters, factories or/and labs, which is a strong signal of trust. They promised us to keep a long-term contact with us and to refresh company information. Finally, they conveyed instruction to their acquired firms to accept our interview request. With permission from the Chinese mother company, Western managers
of the target firms accepted our interview request promptly. Although we wanted to copy the “lunch-meeting concept”, most of them preferred a coffee-meeting.

At the request of most of the Western interviewees, we do not give the names of companies nor the interviewees’ personal identities, and we made sure that the interview content will not be reported to their Chinese mother companies.

Finally, we managed 33 interviews in Chinese, English and German (25 face-to-face interviews and 10 telephone interviews, see Table 1 and Table 2). Among the 33 interviewees, 25 were managers and 8 external experts. 13 of the interviewed managers were from Chinese POEs, 12 from the acquired companies. They were mostly chairman, CEO, CFO, head of sales, amongst some others at similar level. All interviews were semi-structured with open-ended, exploratory questions. The interviews with the internal managers took 2 to 4 hours, with the external managers 1 – 1.5 hours. 30 interviews were recorded. In the three interviews where we did not get permission, we made detailed notes and wrote down the protocols within 24 hours.

Table 1. Statistics of interviewees

<table>
<thead>
<tr>
<th>Interviewed company managers</th>
<th>Interviewed external experts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top managers of the Chinese POEs</td>
<td>13</td>
</tr>
<tr>
<td>Top managers of the acquired firms</td>
<td>12</td>
</tr>
<tr>
<td>Total number of interviewed managers</td>
<td>25</td>
</tr>
<tr>
<td>- of which face-to-face interviews</td>
<td>19</td>
</tr>
<tr>
<td>- of which telephone interviews</td>
<td>6</td>
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Table 2. Occupation of interviewed managers

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>3</td>
</tr>
<tr>
<td>Vice president</td>
<td>4</td>
</tr>
<tr>
<td>CEO</td>
<td>4</td>
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<tr>
<td>CFO</td>
<td>5</td>
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<tr>
<td>Head of sales / marketing</td>
<td>6</td>
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<tr>
<td>Head of production</td>
<td>1</td>
</tr>
<tr>
<td>Head of R&amp;D department</td>
<td>1</td>
</tr>
<tr>
<td>General secretary of board</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>25</td>
</tr>
</tbody>
</table>

The questions discussed in the interviews centered on themes related to (1) what are the strengths and weaknesses of the Chinese POEs prior to the acquisition? (2) what are the strategic assets of the target firms? (3) how do Chinese POEs bundle their own resources and capabilities with the acquired assets? (4) which synergies have been created through the asset combination?
Secondary data
Given the media interest in CBMAs, we were able to collect publicly available information on our sampled firms. We conducted an extensive longitudinal search of the firms’ activities since inception, including newspaper/magazine appearance, company press releases and blogs, personal blogs, interviews, and talks by founders, CEOs, and executives involved in international expansion. The archival data offered valuable information on each firm’s behavior, milestone events and process in its international expansion, and thereby we were in possession of useful background information before undertaking the interviews.

3.3. Data analysis
As it is typical for multiple-case, inductive research methodologies (Yin 2013), we began data analysis by synthesizing all the interview data and the secondary data with statistical analysis tool - MAXQDA. We classify the data into 4 groups – interviews, financial reports, archival data, and emails contacts. The data analysis followed the methodology recommended by Miles et al. (2014), including full transcription of the interviews, translation of the interviews from Chinese and German into English, case description, development of a coding frame that fits the theoretical background, a pilot test, revision of the codes, assessment of the reliability of the codes, and coding. Detailed within-case analysis was followed by cross-case analysis.

Case description and inductive coding were two decisive process of our data analysis.

Case description
As the within-case analysis requires, we used information from interviews and archival data and described each case in the same structure – company key data, milestones in the development of both the acquirer and its target, the process of acquisition and integration (scouting, motivation, negotiation and post-acquisition integration). The case description helped us corroborate the process and development of the strategic CBMAs across different data sources and strengthened the reliability of our qualitative analysis (Jick 1979).

Our research setting was sample cases related to cross border acquisitions with strategic asset seeking motive conducted by Chinese POEs. The POEs in our study include: (1) individual and private enterprises; (2) township enterprises; (3) private technology enterprises; (4) joint-stock enterprises that are not state-controlled; 5. enterprises with foreign-fund that are not state-controlled. This categorisation originates from Xiao and Liu (2015). We exclude the category of state-owned (or publicly-owned) but privately-run firms.

Table 3 gives the overview of the sampled cases. For confidentiality reasons, we give every Chinese POE and its target firm a pseudonym. The first 8 of the 11 Chinese POEs are manufacturing industries (including Sino Outdoor, Sino Tool, Sino Textil, Sino Knitting, Sino Metal, Sino Copper, Sino Motor and Sino Construct), and the remaining three are in the IT & Telecommunication sector of the high tech industry. The overall 15 target firms are located in 5 countries (6 in Switzerland, 1 in Germany, 1 in
Austria, 3 in Finland and 4 in USA). All 15 cases are horizontal acquisitions which involve businesses that operate in the same industry (Capron et al. 1998).

**Table 3: Overview on case companies**

<table>
<thead>
<tr>
<th>Case</th>
<th>Acquirer Industry</th>
<th>Foundation of acquirer</th>
<th>Employees of acquirer</th>
<th>Target firm Country of origin</th>
<th>Foundation of target</th>
<th>Acquisition year</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>Sino Outdoor Manufacturing</td>
<td>1996</td>
<td>1500</td>
<td>West Outdoor Switzerland</td>
<td>1919</td>
<td>2016</td>
</tr>
<tr>
<td>C2</td>
<td>Sino Tool Manufacturing</td>
<td>1993</td>
<td>6600</td>
<td>West Tool 1 USA</td>
<td>1929</td>
<td>2010</td>
</tr>
<tr>
<td>C3</td>
<td>Sino Tool Manufacturing</td>
<td>1993</td>
<td>6600</td>
<td>West Tool 2 USA</td>
<td>1885</td>
<td>2016</td>
</tr>
<tr>
<td>C4</td>
<td>Sino Tool Manufacturing</td>
<td>1993</td>
<td>6600</td>
<td>West Tool 3 USA</td>
<td>1903</td>
<td>2017</td>
</tr>
<tr>
<td>C5</td>
<td>Sino Tool Manufacturing</td>
<td>1993</td>
<td>6600</td>
<td>West Tool 4 Switzerland</td>
<td>1945</td>
<td>2018</td>
</tr>
<tr>
<td>C6</td>
<td>Sino Textile Manufacturing</td>
<td>2000</td>
<td>12000</td>
<td>West Textile Switzerland</td>
<td>1853</td>
<td>2012</td>
</tr>
<tr>
<td>C7</td>
<td>Sino Knitting Manufacturing</td>
<td>1988</td>
<td>1612</td>
<td>West Knitting Switzerland</td>
<td>1947</td>
<td>2010</td>
</tr>
<tr>
<td>C8</td>
<td>Sino Metal Manufacturing</td>
<td>2002</td>
<td>3000</td>
<td>West Metal Switzerland</td>
<td>1855</td>
<td>2013</td>
</tr>
<tr>
<td>C9</td>
<td>Sino Copper Manufacturing</td>
<td>1989</td>
<td>12000</td>
<td>West Copper Retail USA</td>
<td>1947</td>
<td>2016</td>
</tr>
<tr>
<td>C10</td>
<td>Sino Copper Manufacturing</td>
<td>1989</td>
<td>12000</td>
<td>West Copper Process Finland</td>
<td>1939</td>
<td>2017</td>
</tr>
<tr>
<td>C11</td>
<td>Sino Motor Manufacturing</td>
<td>1984</td>
<td>18000</td>
<td>West Motor Austria</td>
<td>1908</td>
<td>2011</td>
</tr>
<tr>
<td>C12</td>
<td>Sino Construct Manufacturing</td>
<td>1993</td>
<td>12000</td>
<td>West Construct Switzerland</td>
<td>1936</td>
<td>2008</td>
</tr>
<tr>
<td>C13</td>
<td>Sino Middleware IT</td>
<td>2008</td>
<td>3000</td>
<td>West AutoSoft Finland</td>
<td>2009</td>
<td>2017</td>
</tr>
<tr>
<td>C15</td>
<td>Sino Comm Communication</td>
<td>1993</td>
<td>8000</td>
<td>West Comm Germany</td>
<td>1980</td>
<td>2012</td>
</tr>
</tbody>
</table>

Source: Interviews and secondary data

Case 1 (C1): *Sino Outdoor* is an Outdoor Equipment producer and worked for many years as original design manufacturing (ODM) partner for the largest global brand companies of outdoor device, including the Swiss company - *West Outdoor*. *West Outdoor* was an excellent outdoor equipment designer for the high-end market and looked back on 100-year tradition. Due to a law suit, *West Outdoor* faced a crisis and had deficits 5 years in a row. The PE owner of *West Outdoor* decided to sell the company through a bidding process. *Sino Outdoor* won the battle against five other bidders from DCs and acquired the target in 2016.

Case 2 – Case 5 (C2 – C5): *Sino Tool* is a producer of hardware tools. It used to be the OEM/ODM producer for well-known US and European retailers of house hardware tools such as LOWES and OBI. In 2011, it became one of the largest hardware tool suppliers in Asia. In 2010, *Sino Tool* started its acquisition strategy: in 2010, 2016 and 2017, it acquired the US brands *West Tool 1* (C2), *West Tool 2* (C3) and *West Tool 3* (C4) respectively, and in 2018, *Sino Tool* took over *West Tool 4* (C5) in Switzerland.

Case 6 (C6): *Sino Textile* is a textile machine producer. From 2006 to 2012, it cooperated with the Swiss *West Textile* in form of a Joint Venture. In 2012, *Sino Textile* acquired 100% shares of *West Textile* through an official tender process.
Case 7 (C7): Sino Knitting is a leading manual and computerized knitting machine producer in the Chinese market. In 2009, Sino Knitting’s international rival – West Knitting from Switzerland - knocked at its door to discuss about the takeover possibilities. In 2010, the two companies signed up the acquisition contract, Sino Knitting bought 100% of the West Knitting shares.

Case 8 (C8): Sino Metal is a fine metal processing company. West Metal from Switzerland is the expert for the high-end niche market in the same sector. The two companies were business partners for many years. In 2006, West Metal faced a financial crisis and since then it experienced several restructurings. In 2013, Sino Metal acquired West Metal and controls 100% of the shares.

Case 9 – Case 10 (C9 – C10): Sino Copper produces the copper products for air conditioning and water piping systems. In the global financial crisis, when most of the market players from Western countries exited the industry, it increased its investments in infrastructure and strengthened its market position. In 2016, Sino Copper took over the downstream company West Copper Retail from USA to further strengthen its global market position and in 2017, it acquired two factories of the Finnish copper processing giant West Copper Process in order to enhance its production technology.

Case 11 (C11): Sino Motor is the largest electric motor producer in China. In the early 2000s, as the first mover and local cost optimizer, Sino Motor acquired several SOEs at low prices and turned out to be the number one in China. West Motor is an Austrian firm in the same sector but specialized for the high-end market and for large size motors. When West Motor’s mother firm experienced a fatal failure in a big project, it opened a public bidding process to sell the daughter firm West Motor in order to solve its cash flow problem. Sino Motor won the bidding in 2011 and became the new mother firm of West Motor.

Case 12 (C12): Sino Construct is one of the most famous façade producers in China. It used to work as a subcontractor for the general contractor from Europe for large projects. In 2008, when the famous Swiss construction firm West Construct went through a liquidation process, Sino Construct took over the entire design team and established its R&D and European sales centre in Europe.

Case 13 (C13): Sino Middleware is a world leading middleware provider engaging in the integration and optimization of chips and terminal systems. The company has experienced explosive growth and is rated by the China Stock Exchange as the most promising listed high-tech company. West AutoSoft is a Finnish startup specialized for Software of cockpit solution. In 2016, the company was named as the most innovative start-up by a leading global consulting company. Due to the cooperation between a Chinese Science Park and a Finnish Science Park, the two companies worked with each other on several projects. At the beginning of 2017, Sino Middleware took over West AutoSoft. The combined company is today one of the most attractive total solution provider for car cockpits.

Case 14 (C14): Sino ConstructSoft is specialized in construction software for planning and bidding processes and enjoys the number one position in this field in the world. West ConstructSoft is a Finnish high-tech family company and the world leading expert for construction software in the design phase.
Its software is used by construction companies from more than 70 countries. In 2014, *Sino ConstructSoft* acquired all shares from the owner family and kept the family members in the board of directors.

**Case 15 (C15): Sino Comm** is a global leading terminal device provider of professional mobile radio (PMR). Shortly after its successful IPO in 2011, the company started its outbound FDIs aggressively. *West Comm* is a system provider of PMR. In 2012, when *West Comm*’s German mother firm decided to concentrate on its core business and to sell the periphery units, *Sino Comm* defeated more than 20 competitors in the public bidding process and successfully acquired *West Comm*.

**Inductive Coding**

We establish the coding frame in three steps:

1. creating the list of initial static codes related to asset types on the basis of the extant researches – strategic resource and capability from targeted firms, and the assets as well as the weakness of the Chinese POEs.

2. creating the initial list of dynamic codes related to asset bundling. In this step, we inductively examined the dataset to identify and extract all evidence of asset bundling. Using open-coding logic (Corbin and Strauss 2008), we built in vivo codes, which are effectively codes developed from verbatim statements.

3. creating the list of codes for synergy. Similarly, we conducted open-coding logic.

To increase the validity of the coding, two authors conducted data analysis with MAXQDA independently. In case of discrepancies, open discussion was held, based on insights from previous literature. In the data analysis process, we continuously compare our findings with the extant research and in turn revise our code framework.

**4. Empirical findings**

Firstly, we conducted the 6-set-asset analyses for both sides – the Chinese POEs as well as their target firms. On country level, we analyze the assets linked to CSAs and the gaps due to country-specific disadvantages (CSDAs). Thereafter, we look at firm level to find firms’ assets referring to FSAs and the gaps due to firm-specific disadvantages (FSDs).

Table 4 summarizes the assets / gaps that Chinese POEs have as acquirers. Across the 8 sample POEs we identified 11 asset types. The assets on country level contain big home market, cheap labor and government created advantage. The assets on firm level contain technology, product, R&D and innovation power, strong production capability and cost management, good managers and talents, and rich financial resources.

Table 5 presents the assets / gaps that the Western targets possess. Across the 15 targets we also found 11 asset types. The assets on country level are positive country image, highly skilled labor, high-end market and craftsman spirit. The assets on firm level include technology, product and product development ability, R&D and innovation power, efficient production, brand, reputation and long tradition, marketing skill, distribution channel and good manager and talents.
Table 4: Assets / Gaps of Chinese POEs

<table>
<thead>
<tr>
<th>Assets / Gaps of Chinese POEs</th>
<th>Cases</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets related to CSA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Big home market</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12,C13,C14,C15</td>
<td>15</td>
</tr>
<tr>
<td>Cheap labour</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12,C13</td>
<td>13</td>
</tr>
<tr>
<td>Government created advantage</td>
<td>C6,C7,C8,C11,C13,C14,C15</td>
<td>7</td>
</tr>
<tr>
<td><strong>Gaps due to CSDA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad country image, country of origin, trading barrier</td>
<td>C1,C2,C3,C4,C5,C8,C9,C10,C11,C13</td>
<td>9</td>
</tr>
<tr>
<td>Lack of craftsmanship spirits</td>
<td>C4,C5,C6,C7,C8,C9,C11,C12</td>
<td>8</td>
</tr>
<tr>
<td><strong>Assets related to FSA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>C1,C2,C3,C4,C5,C6,C7,C9,C10,C11,C12,C13,C14,C15</td>
<td>14</td>
</tr>
<tr>
<td>Product and product development</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12,C13,C14,C15</td>
<td>15</td>
</tr>
<tr>
<td>R&amp;D and innovation</td>
<td>C1,C2,C3,C4,C5,C6,C7,C9,C10,C11,C12,C13,C14,C15</td>
<td>13</td>
</tr>
<tr>
<td><strong>Manufacturing resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficient production &amp; cost management</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12,C13,C14,C15</td>
<td>15</td>
</tr>
<tr>
<td>Marketing resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing skill, channel</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C13,C14,C15</td>
<td>14</td>
</tr>
<tr>
<td>Managerial resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Talents</td>
<td>C1,C2,C3,C4,C5,C7,C10,C12,C13,C14,C15</td>
<td>11</td>
</tr>
<tr>
<td>Effective risk management</td>
<td>C10,C11</td>
<td>2</td>
</tr>
<tr>
<td><strong>Financial resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial resource</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12,C13,C14,C15</td>
<td>15</td>
</tr>
<tr>
<td><strong>Gaps due to FSDA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gap in R&amp;D resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of original innovation</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C11,C12</td>
<td>10</td>
</tr>
<tr>
<td>Technology gap</td>
<td>C1,C5,C6,C7,C8,C9,C11,C13,C14,C15</td>
<td>11</td>
</tr>
<tr>
<td>Gap in marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of brand &amp; market recognition</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C10,C11</td>
<td>10</td>
</tr>
<tr>
<td>Weak position in Western market</td>
<td>C1,C2,C3,C4,C7,C8,C10,C11,C12,C13</td>
<td>10</td>
</tr>
<tr>
<td>Gap in management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of talent, lack of internationalization</td>
<td>C1,C6,C8,C12,C13,C14</td>
<td>6</td>
</tr>
<tr>
<td>Lack of internationalization experience</td>
<td>C1,C6,C8,C11,C12,C13,C14</td>
<td>7</td>
</tr>
<tr>
<td>Assets / Gaps of Target firms</td>
<td>Cases</td>
<td>Total</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td><strong>Assets related to CSA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country image, country of origin</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12,C13</td>
<td>12</td>
</tr>
<tr>
<td>Highly skilled labour</td>
<td>C5,C6,C7,C8,C9,C11,C12,C13,C14,C15</td>
<td>10</td>
</tr>
<tr>
<td>High end market</td>
<td>C1,C2,C3,C4,C5,C7,C8,C10,C11,C12</td>
<td>10</td>
</tr>
<tr>
<td>Craftsman spirit</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12</td>
<td>11</td>
</tr>
<tr>
<td><strong>Gaps due to CSDA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High labor cost</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C10,C11,C12</td>
<td>11</td>
</tr>
<tr>
<td><strong>Assets related to FSA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C12,C13,C14,C15</td>
<td>14</td>
</tr>
<tr>
<td>Product</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C11,C13,C14,C15</td>
<td>13</td>
</tr>
<tr>
<td>R&amp;D and innovation</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12,C13,C14,C15</td>
<td>15</td>
</tr>
<tr>
<td>Manufacturing resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>C1,C2,C5,C6,C7,C8,C9,C11</td>
<td>8</td>
</tr>
<tr>
<td><strong>Marketing resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brand, reputation, long tradition</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C10,C11</td>
<td>10</td>
</tr>
<tr>
<td>Marketing skill, channel</td>
<td>C1,C2,C7,C8,C10,C11,C12,C13,C14,C15</td>
<td>10</td>
</tr>
<tr>
<td><strong>Managerial resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good manager, talent</td>
<td>C2,C3,C6,C9,C10,C12,C14,C15</td>
<td>8</td>
</tr>
<tr>
<td><strong>Gaps due to FSDA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gap in R&amp;D resources</td>
<td>Bad in innovation cost control, bad in market oriented innovation</td>
<td>C1,C2,C3,C4,C7</td>
</tr>
<tr>
<td>Gap in production</td>
<td>Old fashioned equipment/plant</td>
<td>C2,C3,C4,C9,C10</td>
</tr>
<tr>
<td>Gap in marketing</td>
<td>Marketing problem (weak position in Asia, or / and in other markets)</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C11,C12,C13,C15</td>
</tr>
<tr>
<td>Managerial problem</td>
<td>Managerial problem (bad incentive system, no diversification strategy, bad cost controlling, lack of vision &amp; ambition, missing dynamic)</td>
<td>C1,C2,C3,C4,C6,C8,C9,C10,C11,C12</td>
</tr>
<tr>
<td>Gap in management</td>
<td>Former owner problem</td>
<td>C1,C2,C3,C6,C7,C8,C9,C10,C11,C12</td>
</tr>
<tr>
<td>Gap in Finance</td>
<td>Finance problem</td>
<td>C1,C2,C3,C4,C5,C6,C7,C8,C9,C10,C11,C12,C13,C14,C15</td>
</tr>
</tbody>
</table>
4.1. Assets and gaps of Chinese POEs

4.1.1. Country-level analysis of Chinese POEs

Table 4 show us, on country level, the sample Chinese POEs possess the resources that link with the two commonly recognized advantages - the big home market (mentioned in 15 cases) and cheap labor (13 cases). The resources related to government-created advantages are proved in 7 cases in form of low interest credits from state banks or other governmental funding facilities (C6, C7, C8), governmental orders (C13), financial support and consulting services from high-tech parks (C14, C15), and soft support (C11) – the Chinese embassy played a role as cultural consultant and communication enabler for Sino Motor in the negotiation with the big shareholders and the labor union of West Motor. In the remaining 8 cases, the interviewed Chinese entrepreneurs and executives denied that they had received any form of support from the government except verbal encouragement. The vice president of Sino Tool stated:

“We as a private company cannot get any governmental resource comparable to state-owned enterprises. In our four overseas acquisitions, we had to rely on market mechanism and on our own resource. But of course, the Chinese government encouraged private firms to go out verbally - only verbally for us.” (Vice president, Sino Tool)

In 10 cases, Chinese POEs complained about the negative impact of the country image. In C1, C2, C3, C4, C8, Sino Outdoor the products of Sino Tool and Sino Metal were facing recognition difficulties by Western customers. In C8 and C11, Chinese managers of Sino Metal and Sino Motor disclosed that their companies had no chance to enter European markets with the label “Made in China”. In C9 and C10, Sino Copper encountered trade barriers against Chinese products.

4.1.2. Firm-level analysis of Chinese POEs

On the firm level, Chinese POEs hold important resources in all five sets - R&D, manufacturing, marketing and financial assets. This is not only claimed by the interviewed Chinese managers but also confirmed by the interviewees from the Western target firms.

4.1.2.1. R&D assets

Western managers of the target firms declared in interviews that their Chinese takeover companies possess certain or even excellent technologies (in 14 cases), competitive products (in 15 cases) as well as significant R&D and innovation ability (in 13 cases).

Technology and product profiles of manufacturing POEs are different from high-tech POEs. They are mostly focused on low-end to medium markets whilst Sino Outdoor, Sino Tool and Sino Copper have technology for high-end markets. In comparison to the leading position of Chinese manufacturing POEs in the home market, the three high-tech POEs have already become the global first movers of special technologies and serve first-class clients in the world.
The manufacturing and high-tech POEs have undergone different ways of technology development - the former through inward internationalization, the latter through university research and support from high-tech parks.

The implementation of the Chinese reform-and-opening-policy over the past 30 years has not only attracted huge amount of FDI to China – to the extent that it became the largest FDI recipient in the world in 2017 (UNCTAD 2018) - but also motivated global companies to do business with Chinese firms. FDI brought positive spill-over effects in terms of technology development of Chinese firms in three ways (Cheung and Ping 2004): 1. Chinese firms have learnt about the products and technologies brought in by foreign investors by means of reverse engineering (evidenced by Sino Textile, Sino Knitting and Sino construct); 2. Chinese firms have obtained technological know-how of FDI related firms through hiring their skilled workers (evidenced by Sino Copper, Sino Motor and Sino Construct); 3. Inward FDI has a demonstration effect on Chinese firms’ innovation activities – foreign products/technologies can inspire and stimulate Chinese innovators to develop new products and processes. Doing business with Western partners has helped Chinese companies to build up technology. Except Sino Knitting, all other 7 Chinese manufacturing companies in our sample have cooperation experiences with Western firms, either as OEM/ODM producers (Sino Outdoor, Sino Tool, Sino Copper), joint venture partner (Sino Textile), or subcontractors (Sino Knitting, Sino Metal, Sino Motor, Sino Construct). Above all, in the past 30 years, Chinese manufacturing companies have accumulated advanced technologies as well as rich capital in the inward internationalization phase. The eight manufacturing POEs in our sample are all industry leaders in the home market. They can deliver competitive products for mass markets; some of them (Sino Outdoor, Sino Tool, Sino Copper) even have capability to produce high-end market products but miss recognized brands.

The quotes below deliver evidence for the R&D resource of Chinese manufacturing POEs:

"Since many years, Sino Outdoor has been working as OEM/ODM partner for almost all world famous brand firms. It knows the designs of such famous brands well and masters the technology to produce the brand products. Our side (West Outdoor) knows they have collected rich experience and huge size of data." (CFO, West Outdoor)

"Sino Tool is a first class imitator. As commissioned by the global retail dealers, they could produce tools with 90% of functions of tools from the most famous brand but only with 60% price. Their product line is extremely broad covering the hand, lighting, power, and auto tools, safety product, etc. It has continued investing in its production facility - new machines, and in R&D. Recently, Sino Tool established several most advanced plants in China and an efficient design team for tools." (Managing Director, West Tool 1)

In 8 cases, we found evidence that Chinese manufacturing POEs delivered much broader product lines in comparison with their takeover targets, which indicates that Chinese POEs care more about diversification. For example, in C1, Sino Tool covers tools in multiple industries, while its targets usually focused on a limited type of tools – West Tool 1 for the automobile industry, West Tool 2 for the construction industry, West Tool 3 for the machinery industry. Sino Outdoor had 30 product lines with different materials, whilst West Outdoor only had 2 product lines with one material.
The three high-tech companies, *Sino Comm*, *Sino ConstructSoft* and *Sino Middleware* are all born in one of China's high-tech parks which are designed to serve as large and important industrial bases as innovative zones (Zeng et al. 2011). High-tech parks are important elements of the national and the sub-national economic development and industrial policy and represent one of the largest investments of the Chinese state and of private venture capital funds. These three high-tech companies started as advanced technology spin-offs from famous Chinese universities or research institutes. Later on, they registered as start-ups in high-tech parks in order to get financial support from venture funds. In high-tech parks, they all quickly transformed from start-ups to successful listed companies. As their technology advantages were fueled by the capital market, they grew up to leading companies in their sector with first class technologies and unique products. The vice president of *West ConstructSoft* witnessed the leading status of *Sino ConstructSoft*.

"*Sino ConstructSoft* has in some software very quick algorithms, much quicker than normal software... They have also brought a software product for construction project-planning to the market - efficient and free for all registered users. This software has made *Sino ConstructSoft* world famous and enables it to be the leader in the construction software industry. In addition, due to the free access of the software, *Sino ConstructSoft* has collected maybe the richest user data in the field." (Vice president, West ConstructSoft)

"*Sino Middleware* is among the first that saw this opportunity and got in touch with Android. This is to say, they used to do the outsourcing business related to MID and LINUX. Then in 2009, they seized this brilliant opportunity and developed the pioneering operating system for smart controlling based on Android. Because of this invention, world famous firms such as Qualcomm and ARM have become its strategic investors and partners." (Head of Sales, West AutoSoft)

In 13 out of the 15 cases Western managers confirmed the R&D and innovation ability of their Chinese acquirers, especially their innovation power driven by real-time-market information, cost pressure and client needs. It took 30 years for China to achieve what the Western world achieved in the past 100 years. Grown up in such a high-velocity market, Chinese private companies have had to build up their dynamic capabilities with hard work by keeping being sensitive for market change and staying stand-by for client. As big data and social networking technology reached China, Chinese companies have quickly adapted and started using them for capturing customers’ needs. *Sino Outdoor*, *Sino Tool*, *Sino Textile*, *Sino Knitting*, *Sino Motor*, *Sino Construct*, *Sino Comm*, *Sino ConstructSoft*, *Sino Middleware* applied social network tools to collect client feedback and promote client’s improvement idea. The new client relationship approach has created a dynamic innovation mechanism that enables Chinese companies to accelerate their product upgrading speed.

Chinese manufacturers in our sample are particularly smart in incremental innovation and highly dynamic in practice-oriented and cost-saving-oriented product development. They were not willing to stay imitators or low-cost partners. Instead, they put a lot of resources into innovation. As pioneers in their special field, the three high-tech firms have grown rapidly. Due to continuously enlarged R&D teams and investments, they built up world-class R&D capabilities. The following quotes further clarify the R&D capability of both types of Chinese POEs.

“*They (R&D experts of Sino Knitting) are strong in quick, practice oriented, low-cost solutions, and smart in second-hand innovation. But they are weak in radical innovation. They respect our (West Knitting’s)
craftsmanship in product development and innovation, but they are very impatient. They like the technological solution. But they do not understand that true initial innovation needs time. Chinese like to make quick money. The sense for time is different in China. For them, time is short. Quick, quick, quick!” (CEO, West Knitting)

“Sino Middleware is the world leading ‘Middleware provider’...With years of R&D investing experience in mobile OS technology such as Android, Linux, Windows and HTML5, Sino Middleware has yielded a comprehensive technology system involving the hard drive, operating system kernel, middleware and upper application, which has brought extensive experience with a large number of IPs... Till now, they have more than 3'000 employees, half of them in R&D. Moreover, we have a dozen of R&D centers and bases in China and in overseas countries. They also expand overseas business and R&D to Korea, Japan and the US. Two bases in the US: one is in Santiago and the other one is in Silicon Valley. There is also a R&D center in Helsinki.” (Head of Sales, West AutoSoft)

4.1.2.2. Manufacturing assets

All Chinese POEs in our sample are efficient production organizers and excellent cost managers in the view of their targets. Besides the relatively cheap labor cost, the latecomer advantages played an important role in production management of Chinese POEs. The managers of West Tool 1, West Tool 2 and West Copper Retail stated that their Chinese acquirers possess more modern plants and production facilities than Western competitors do. For cost optimization, Chinese POEs more frequently evaluate and re-select their delivering firms (Sino Tool, Sino Textile, Sino Copper, Sino Motor, Sino Construct). In contrast, Western targets used to be loyal to their suppliers for long-term (West Tool 1, West Textile, West Copper Process, West Motor, West Construct).

4.1.2.3. Marketing assets

All Chinese manufacturing POEs except Sino Metal hold a strong position in their home market, their sales network is broadly spread across the entire China and they have a solid client basis. The three Chinese high-tech firms are different from the manufacturing firms since they are first movers in their special fields worldwide and have robust client bases in global markets.

Many Western executives strongly praised their takeover companies for the customer service. They told us that Chinese client relation managers tried to be friend or even a kind of family member of their customers.

“Their (client relation manager’s) cell phones are in stand-by modus for clients 24 hours a day, 7 days a week. Usually, any defects are remedied very quickly in China. Holding such a large marketing team and service team is impossible in Europe in our industry.” (Former CEO, West Textile)

4.1.2.4. Managerial assets

In 11 cases, the interviewed managers of Western target firms respected and acknowledged three types of talents in Chinese POEs: 1. the visionary leaders who could not only figure out a solid bundling plan and a trustful and inspiring future for the combined business but also kept their words throughout the transition phase (C1, C2, C3, C4, C5, C7); 2. technology-bridging managers who understood and highly respected the technology and business of their target firm and valued the craftsmanship spirit in western countries (C12, C14, C15); 3. culture-bridging managers who had rich international experience and made a big contribution in overcoming cultural differences between the acquirer and the target (C9, C10).
4.1.2.5. Financial assets
All Chinese POEs in our sample possess sufficient financial assets, not only for the acquisitions but also for the future development of the combined companies.

4.1.2.6. Gaps of Chinese POEs at company level
Concerning the resource gaps at company level, manufacturing POEs and high-tech POEs have different shortages.

All 8 manufacturing POEs declared that they were short of product design and technologies serving high-end markets. Except *Sino copper*, all other 7 manufacturing POEs stated in 10 cases (C1,C2,C3,C4,C5,C6,C7,C8,C11,C12) that they lack original innovation power – innovation “from zero to one”. The annual statistic report 2017 on China patents mirrors the status quo of Chinese innovation. Amongst the three general types of patents – invention, utility and design patent (SIPO 2018) - the invention patents accounted only for 19% of all patents in China, in sharp contrast to this ratio in the rest of the world (77%). All manufacturing POEs also complained about the low market acceptance and client recognition in high-end markets. Furthermore, some of them are missing good managers and talents with rich international experiences. The following quotes deliver some details on these challenges:

"Strategically, we intended to expand a product line of our motors, rather than small ones alone. We wanted to produce big motors and highly efficient motors. But we lack the technology and resources to design and produce large electric motors and high-efficiency motors." (Vice president for Sales department, Sino Motor)

"Sino Metal is good in mass production but weak in customized solution. West Metal is the opposite." (Chairman secretary, Sino Metal)

"We have worked hard for brand firms, because we have no recognized brands, but excellent products... We can never gain our footing until we have the brand of our own. Otherwise, the only thing we can do is listening to what others say and doing what others ask for. A brand company can make products on its own, and can also leave this task to the OEM. In the end, an OEM can only compete with price, thus be squeezed by others. Profit of this business model is sure to be less and less... That is why we acquire brand firms in US and Europe... Chinese people are good OEM partners and can copy others’ products, but we are weak in design, invention... We need to acquire the resource for product design. European and US people are grown up with different hand tools – just have a look at their garage or workroom in basement. They have the culture of designing and inventing tools." (Vice President, Sino Tool)

“What we are missing is the spirit of originality - the ability of innovation from zero to one. Our people are very smart in 1-to-N-innovation - or better to say in incremental innovation or improvement.” (General Manager, Sino Knitting)

In comparison to the manufacturing POEs, the high-tech POEs wished to integrate either the technologies aiming at the European communication standard (*Sino Comm*) or the complementary upstream/downstream technologies along the value chains in order to become a total solution provider (*Sino ConstructSoft, Sino Middleware*). Concerning the marketing resources, only *Sino Comm* tackled the market acceptance and client acceptance problem in Western markets. The products and solutions of *Sino ConstructSoft* and *Sino Middleware* are welcome worldwide.

To sum up the sample Chinese POEs we observe 2 different profiles of them which subsequently have different objectives for their acquisitions.
Manufacturing companies represent the first profile. The Chinese manufacturing POEs are efficient producers (Sino Outdoor, Sino Tool, Sino Copper, Sino Construct, Sino Textile, Sino Knitting), first class imitators (Sino Tool, Sino Knitting), excellent process optimizers (Sino Copper, Sino Motor) and incremental innovators for technology / product improvement (all 8 Chinese POEs). They successfully operate in highly competitive markets with low margins and highly price sensitive products at the low end where economies of scale are a key success factor. They imitate new products with reasonable margins quickly, efficiently and on a regular basis, benefitting from latecomer advantages. Their major strengths are customer oriented and quick product redesign including service offering, cost minimization, process optimization and state-of-art, scalable production lines. They are smart in incremental improvement, but weak in initial innovation. Despite their leading position in the Chinese market and professional cooperation with Western partners, their brands and products have low acceptance in world markets. They also have limited resources for international business and are lacking high skill managers and talents with international experience.

High tech companies represent the second profile. They are highly innovative – not only in client-oriented, but also in initial innovation, therefore become the first movers in their industries. They seek European companies, which can complement them down- and upstream to become a total solution provider.

4.2. Strategic assets and gaps of the target firms – Assets targeted by Chinese companies

In this chapter, we shed light on what assets Chinese POEs are looking for when they acquire Western companies (table 5).

4.2.1. Country-level analysis of strategic assets and gaps

In 12 cases, the positive country image of the Western targets is highly valued by the Chinese POEs. Except West Copper Process in C9, all other manufacturing targets were considered to have the desirable country of origin which could help Chinese POEs to win recognition from Western clients. The same is true for the high-tech firm West Comm. Country image was also an issue for Sino Comm as its products mainly belonged to the field of national defense and public security communication. The CFO of Sino Comm said, prior to the acquisition of West Comm, his company could not obtain big projects in Europe due to its home country image. The German brand of West Comm would help them open European markets. However, in the world of IT, leading technologies of West ConstructSoft and West AutoSoft were key driving factors for the acquisition. Clients in this industry do not care about the country of origin but the functionalities and quality.

Besides the high-end market (found in 10 cases) and the highly skilled labor force (mentioned in 10 cases), Chinese POEs considered the craftsmanship spirit as an important strategic asset of the Western targets (evidenced in 11 cases).
"People in Western countries are quite strange - they adhered to a craft for the whole life. Generation after generation, they are continually trying to improve this craft. For example, this company (West Tool 3) has manufactured clips already for seven generations. The company has never stepped into other products. This kind of persistence is what we Chinese are missing. Chinese are opportunists – jumping from one business to another and hunting for short-term profit. Such brands as West Tool 1, West Tool 2 and West Tool 3, actually attracted us with their craftsmanship. Their craftsmanship spirit is also highly recognized among the clients."

(Vice President, Sino Tool)

The gaps of the Western targets in country level are significant, since 11 target firms stated that the high labor costs in home countries were a stumbling block of the company’s development.

4.2.2. Firm-level analysis of strategic assets and gaps

At firm level, in more than 10 cases Chinese POEs regarded the R&D and marketing resources of the targets as their desirable strategic assets. In 8 Cases, Chinese POEs also valued the production bases and managerial resources.

4.2.2.1. R&D assets

Except West Copper Retail, the technologies of all other 14 target firms were appreciated by the Chinese POEs. Except West Copper Retail and West Construct, the products of the other 13 target firms were seen as the best complementary fit for Chinese POEs. We reiterate the difference between the manufacturing firms and the high-tech firms. Manufacturing Chinese POEs were looking for technologies and products for high-end markets, while high-tech Chinese POEs wanted to integrate the most advanced technologies and products from upstream or downstream companies. The following quotes support this:

"In the year as we went into the bidding process, we (Sino Motor) could only produce low-power electric motors up to 600w, 700w. West Motor produced motors with high power, up to 25 mw, and high efficiency. They owned a lot of technologies for serving high-end markets like Germany. " (Vice President for Sales department, Sino Motor)

"I would say the West ConstructSoft's software is one of the leading products in this industry for the project budget planning...West ConstructSoft’s technology and products lie in the upstream field of our firm and are complementary for us. There are a few competitors. I would say three to five competitors, who are technologically at the same level like West ConstructSoft." (General Manager of the department for overseas Marketing and Operation, Sino Construct)

In all 15 cases, Chinese POEs stated that their target firms possessed valuable R&D and innovation abilities.

4.2.2.2. Manufacturing assets

The production resources of 8 Western targets were strategic assets for 6 Chinese manufacturing POEs. Chinese POEs needed these production bases to produce for high-end markets (C1, C2, C5, C6, C7, C8, C11), to avoid trading barriers (C2, C9), and/or to obtain the country labels of the target companies for their products (C1, C2, C6).
4.2.2.3. Marketing assets

In terms of marketing resources, in 10 cases Chinese companies disclosed that brands, long traditions, marketing skills and distribution channels of the target companies were the desirable strategic assets they were globally looking for.

In our samples, West Outdoor, West Tool 1, West Tool 2, West Tool 3, West Textile, West Metal and West Motor have over 100-years histories. West Knitting, West Construct and West Comm also possess a long tradition in their industries. Many Chinese entrepreneurs are dreaming of keeping their business at least for a century. The following quotes exemplify this.

"Why does Sino Outdoor find West Outdoor extraordinary? West Outdoor has a history of more than 100 years ... we wish by embracing West Outdoor, our company (Sino Outdoor) could operate for one hundred years as well." (Chairman, Sino Outdoor)

"All three acquisitions in the USA are related to century-honored brands. These acquired firms have their own design philosophy, their own factories, and their reputation, which forms an indelible memory for consumers. For example, the tools provided by West Tool 1 and Tool 2 can be found in almost every US family." (Vice President, Sino Tool)

Among the manufacturing targets, West Outdoor, West Tool 1, West Textile, West Knitting, West Copper Retail, West Motor and West Construct have all solid client bases in high-end markets.

The three high-tech targets have loyal customers in different continents due to their leading technology and high-quality products.

4.2.2.4. Gaps of Western target firms at company level

In analogy to the Chinese POEs, Western manufacturing companies and Western high-tech firms have different gaps, too. All three high-tech targets – West ConstructSoft, West AutoSoft and West Comm - faced financial limitations hampering their further development and insufficient marketing capabilities and resources in the Chinese market. Although they had world leading technologies, they missed some advantages that their acquirers had – governmental support from the national high-tech parks and big domestic capital markets to accelerate their business. West Comm had planned to enter China, but its former mother company decided to stop these plans in the aftermath of the global financial crisis. As a peripheral business unit, West Comm could no longer obtain any support from its mother company for expansion in new markets. West ConstructSoft had tried to open a sales office in Beijing but without any positive results after two years’ operations.

Despite advanced technologies, reputable brands and excellent client bases, none of the Western manufacturing companies could continue its business on the basis of self-reliance.

Firstly, the Western manufacturing companies were under pressure from emerging market firms due to cheap-labor-advantages and imitation abilities. They often combined continued technology innovation with a more upscale market positioning and gradually gave up the lower end markets. As a result, they ultimately found themselves on the peak of the client segmentation pyramid serving a small group of clients in a personalized niche market as their products became more and more specialized. Although
they earned high margins per unit, earnings from shrinking sales volumes did no longer cover their fix costs and investments nor could they support further development. *West Outdoor, West Knitting, West Metal* and *West Construct* faced all the same issue. In its best period, *West Knitting* was called one of the four kings in its industry, serving global clients. Later on, due to the continuous abandonment of lower end products, its number of clients shrank constantly. Prior to the acquisition, *West Knitting* only served a very limited number of European clients. *West Metal* was once a large size manufacturing firm producing more than 3’000 types of products. In 2013, when it was taken over, it only had around 30 types of customized products on its shelf.

Our sample manufacturing targets revealed further gaps in other dimensions:

Managerial problems are observed in 10 cases. Many companies suffered from bad cost management (C2,C3,C4,C6,C8,C9,C12), wrong investments (C8,C11), limited product diversification (C1,C2,C3,C4), short sighted strategy and lack of ambition (C10,C11).

Insufficient marketing capacity for Asian market entry is evidenced in 11 cases. Developing Asian markets was a big challenge for most target firms in our sample. This substantiates the statement of Hennart (Hennart 2009, Hennart 2012) that marketing resources such as market access and client relationship are controlled by local companies and may not be tradable.

Former ownership problems are observed in 10 cases. There are two types of ownership problems have been detected: 1. succession problem – mostly observed in family firms (C2,C3,C4,C10); 2. unwillingness to further invest into the business and desire of former owners – either PE or former mother firms – to cash in (C1,C5,C6,C8,C9,C11).

All sample target firms faced financial problems prior to the acquisition. Some were forced to the edge of bankruptcy (C3,C8,C12); some were unable to finance R&D and market exploitation (C2,C4,C14,C15) in the near future; and the remaining target firms were exposed to their former owners’/mother companies’ wish to liquidate the business in order to concentrate on the core business and to raise cash for the recovery from the global financial crisis and from failed investment projects.

Furthermore, we observed cost management problems within R&D in 5 cases (C1,C2,C3,C4,C7) and production problems due to old fashioned manufacturing techniques in 5 cases (C2,C3,C4,C9,C10).

### 4.3. Asset bundling

4.1 and 4.2 reveals the significant difference in asset profiles between Chinese POEs and their Western targets whereby a clear difference between the manufacturing sector and the high-tech sector becomes evident.

In manufacturing industries, the Chinese POEs and Western firms went into opposite directions: the former group positioned itself in the mass market fighting for quantity and price, the latter one in high-end markets with shrinking client numbers. Chinese POEs were first-class manufacturers, ingenious
imitators, excellent process and cost optimizers, and customer-oriented incremental innovators whilst their target firms were long-tradition brand carriers, first class designer with craftsmanship spirit and original innovators.

In high-tech industries, Chinese POEs as well as Western target firms, were both first movers in special technologies. Supported by governmental initiatives for encouraging high tech development and innovation and fueled by the strong capital market, Chinese high-tech POEs in our sample experienced exponential expansion. The three high-tech Western target firms kept their leading position in technology but were financially bottlenecked in their further development.

The different asset profiles of Chinese POEs and their Western targets contain huge potential for resource optimization via resource redeployment and asset bundling.

Our study has examined 121 possible pairwise combinations of asset type bundling, whereof we found empirical evidence for 47 pairs. 32 out of these 47 have been observed in at least 10 cases (see the 11 X 11 bundling matrix in table 7). On the level of asset sets, we end up with 30 possible pairwise set combinations whereof we found empirical evidence for 17 pairs.

4.3.1. Horizontal asset bundling
In Table 7, all horizontal asset bundling combinations are shown in the fields, diagonal of the table or close to it. Horizontal asset bundling happens within the first 5 asset sets. Only with regard to financial assets, there is no horizontal asset bundling in our cases because none of the Western target firms did dispose of large financial assets. The blue cursive texts in cell (B,2), (E,4), (F,5), (G,6), (H,7), (J,8) and (K,9) indicate the cases of same-asset-bundling.

4.3.1.1. Horizontal asset bundling of country-level assets (set 1- set 1)
In the country asset set there is empirical evidence for five-pair combinations, whereof the following three have evidence in 10 or more cases: “country image - big home market” in cell (A,1), “high-end market – big home market” (C,1) and “craftsmen spirit – big home market” in cell (D,1).

As discussed in 4.2.1, the positive country image and the craftsmen spirit of the target firms are highly valued by Chinese POEs which bundled these assets with their big home market in order to exploit the market potential of the target firms’ products in China. The following quote supports this argument:

“If a handworking tool is labelled with "Made in Germany", "Swiss Made“ or "Made in Japan", Chinese consumers will like it. We even don’t need to invest big money for marketing it. Such country labels are the guarantee for high quality, craftsmanship spirit and good taste. That is why we like to acquire German, Japanese and Swiss firms. The takeover of West Tool 4 is a good example.” (Vice president, Sino Tool)

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1 To label the asset set pairs, we put the asset of the target firm before the hyphen and the asset of the Chinese POE behind the hyphen.
<table>
<thead>
<tr>
<th>Chinese POEs’ Asset types</th>
<th>Target Firms’ asset types</th>
<th>Set 1 Country-level Assets</th>
<th>Set 2 R&amp;D Assets</th>
<th>Set 3 Manufacturing Assets</th>
<th>Set 4 Marketing Assets</th>
<th>Set 5 Managerial Assets</th>
<th>Set 6 Financial Assets</th>
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<tr>
<td>Big home market</td>
<td>C1,C2,C3,C4,C5,C6, C7,C8,C11,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C6, C6,C7,C8,C10,C12,C13 (Total 3)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
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<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
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<tr>
<td>Cheap labour</td>
<td>C6,C7,C11,C13 (Total 4)</td>
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<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
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<tr>
<td>Product</td>
<td>C1,C2,C3,C4,C5,C6, C7,C8,C9,C11,C13, C14,C15 (Total 13)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 12)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C11,C12, C13,C14,C15 (Total 11)</td>
</tr>
<tr>
<td>R&amp;D and innovation</td>
<td>C1,C2,C3,C4,C5,C6, C7,C8,C9,C11,C13, C14,C15 (Total 13)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 12)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C11,C12, C13,C14,C15 (Total 11)</td>
</tr>
<tr>
<td>Brand, reputation,</td>
<td>C1,C2,C3,C4,C5,C6, C7,C8,C9,C11,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 12)</td>
<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C11,C12, C13,C14,C15 (Total 11)</td>
</tr>
<tr>
<td>long tradition</td>
<td>C6,C7,C8, C11,C13 (Total 5)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 12)</td>
<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C11,C12, C13,C14,C15 (Total 11)</td>
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<tr>
<td>Marketing skill, channel</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
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<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 12)</td>
<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C11,C12, C13,C14,C15 (Total 11)</td>
</tr>
<tr>
<td>Good manager, Talent</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 12)</td>
<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C11,C12, C13,C14,C15 (Total 11)</td>
</tr>
<tr>
<td>Financial resource</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 11)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C10,C12,C13 (Total 12)</td>
<td>C5,C6,C7,C8,C11,C12, C13,C14,C15 (Total 10)</td>
<td>C1,C2,C3,C4,C5, C6,C7,C8,C11,C12, C13,C14,C15 (Total 11)</td>
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</table>

Table 7: Asset Bundling Matrix
4.3.1.2. **Horizontal asset bundling of R&D assets (set 2 – set 2)**

At firm level, there are six pair combinations empirically evidenced for set 2 (R&D resource) whereof the three same-asset-bundling combinations (the assets from acquirers and targets fall in the same asset category) – “technology – technology” in cell (E,4), “product – product” in cell (F,5), “R&D and innovation – R&D and innovation” in cell (G,6) obtained evidence in 13, 14 and 13 cases, respectively. The combination technology – product in cell (E,5) is observed in 12 cases. Chinese POEs emphasized bilateral resource redeployment in this asset set which both sides could benefit from. They often seek targets with complementary technology, products, R&D and innovation capabilities which offer opportunities to improve the technical skills on both sides, the acquiring as well as the acquired company.

But here again we have to separately discuss manufacturing firms and high-tech firms.

**Manufacturing firms**

In terms of **technology match**, POEs used the technological lead of their target manufacturing firms to rapidly improve their own technology applied in mass market in order to maintain their front-runner status against their Chinese counterparts (C1,C6,C7,C11,C12). On the other hand, they helped the targets to adapt their technology to become more customer oriented and cost optimized (observed in C1,C2,C3,C4,C6,C7,C9,C11,C12). For example, *West Knitting’s* engineers assisted *Sino Knitting* to upgrade its knitting machines with minimal changes for big textile factories while *Sino Knitting’s* engineers encouraged *West Knitting* to simplify its machines by abandoning technical functions which were not used by Asian clients so that the price for these machines became more attractive for global medium markets. This cooperation resulted in a win-win situation - *Sino Knitting* kept its technology lead in China and against mass market’s imitators; *West Knitting* could serve a broader clientele in the world.

In terms of **product match**, Chinese POEs planned not only to improve their own products via Western technology, but also to combine their products with the products of their targets to comprehensively serve all market segments. For example, after the takeovers, *Sino Outdoor* and *Sino Motor* strengthened their investments into low-end products in China and into high-end products of their takeover firms at the same time. Finally, the combined group could achieve three things with one stroke – first, they were able to provide more diverse product lines than their competitors from Asia and Western countries; second, equipped with enhanced technology for the mass market, their products were superior in quality and price preventing the attack from their imitators and low cost competitors; third, their high-end products produced with combined technology were not only more competitive in price, but also more customer oriented. The following quotes explain the logic behind.

“After the takeover, we have now West Outdoor series for high end clients. Sino Outdoor’s own brands - Santego for medium class and Nano for low-end clients. Together, we can cover the whole Chinese market.”

(CFO, West Outdoor)
“We build up a sales team for West Outdoor’s products in China. But we will also strengthen our own production and sales of the products for the medium and low class. We will improve the profitability of both the mass products and the high-end products. We are going to serve the whole market. Many Western companies made mistakes - they gave up the low-end market. This decision gave Chinese companies (such as Sino Outdoor) the opportunity to grow and to finally counterattack them.” (CFO, Board Member, Sino Outdoor)

How Chinese multinational companies combine innovation resource after CBMAs has been less discussed in literature so far. Chinese and Western firms have different but mostly complementary capabilities. In our sample, all Chinese manufacturing POEs except Sino Metal cooperated closely with their targets in 11 cases (C1,C2,C3,C4,C5,C6,C7,C9,C10). Sino Outdoor, Sino Tool, Sino Textile and Sino Knitting all had positive experiences in co-innovation. They claimed that the combined innovation was more creative, cost saving and client-oriented. The following quotes support this argument:

“We have good experience of R&D cooperation. The headquarter gave us a task of designing a new line of tools for medium- and high-end markets. They invited us (R&D team of West Tool 1) to China and let us work with 10 Chinese guys together, including the people for production, marketing, design, workshop, and R&D. We were all working at a round table in a meeting room. When any problems appeared, they could be solved one after another. After several rounds of “Yes, No, Yes, No”, the final decision could be made. And the prototype would be produced immediately. Together with Chinese guys we did it within one month! In US, we could never create so many new products within such a short period.” (CEO, West Tool 1)

“We Swiss used to design very complex machines ... then the Chinese told us we should delete several functions because they were superfluous...Together with them we can make machines cheaper and closer to the clients’ need...We (West Knitting and Sino Knitting) have developed the machine for the production of the complete garment together... We Swiss and the Chinese have different ways of product development. In Switzerland, the engineers plan and investigate different variants. Sometimes six months go by until the first pencil stroke is done, but the chosen option will work. In China, on the other hand, they start immediately and then check the different options when the first hurdle comes. My job is to convey how the other side thinks. The Swiss must become a bit more Chinese and the Chinese a little more Swiss.” (CEO, West Knitting)

The initial innovation power bundled with cost-optimization and client-oriented innovation triggered great results. In a short period, Sino Outdoor and West Outdoor launched more than 100 new products, made of four different materials rather than just one, as done by West Outdoor before. Together with the acquired brand firms, Sino Tool created customized tool boxes for different industry sectors, such as a tool box for car repair centers, furniture installation firms, interior decoration companies, etc. Sino Knitting and West Knitting invented a 3D-knitting machine for world leading high-end clothing manufacturers. Sino Construct and West Construct developed environment friendly façade material.

High-tech firms

In our sample, prior to the acquisitions, Chinese high-tech POEs and their target firms controlled self-developed top technologies in different positions of their industrial value chains. Through same-asset-bundling in technology and products, the combined companies are able to provide a more complete service to their clients. Sino Comm and West Comm deliver terminals as well as communication infrastructure for dedicated communication systems. Sino Middleware and West AutoSoft provide operation system and software for smart Cockpits. Sino ConstructSoft and West ConstructSoft serve construction clients with integrated software for the design and bidding. The following quote
exemplifies these advantages from same-asset-bundling. In our cases this strengthened the market pricing power and increased the hit ratio of biddings.

“All of them. It is more accurate to say that we target at the upstream and downstream enterprises within our industrial chain as well as those favorable ones and their upstream and downstream. Our moving upwards and downwards bring us a longer and longer industrial chain. At first, we may have only a short section, but now we can put them all together to be a total solution provider...Bidding for big project as a total solution provider has many advantages: 1. The hit ratio is higher; 2. We can have more bargaining power in price offering; 3. The project development risk is lower, since we are general contractor controlling all details; in addition, we can organize joint innovation from the perspective of a total solution provider.”
(Vice President, Sino Middleware)

In terms of innovation, the acquiring Chinese high-tech POEs worked as partners with the acquired Western high-tech companies. Joint product innovation contained three phases – the common design stage, the separately organized module development stage and the mutually agreed conducted integration of the modules. This approach delivered good results. Sino Comm and West Comm developed communication solutions for Chinese and European standards. Sino ConstructSoft and West ConstructSoft created new working tools for construction planers. Sino Middleware and West AutoSoft launched a new cockpit model for a famous German brand car.

4.3.1.3. Horizontal asset bundling of manufacturing assets (set 3 – set 3)
The combination of manufacturing assets (cell H,7) appears in 9 cases among the manufacturing companies. Except Sino Construct, the remaining 7 Chinese manufacturing POEs and all 9 Western targets with production facilities were involved in this type of bundling. Instead of shutting down the factories after the acquisition and transferring technologies to China as many Western managers were afraid of, Chinese POEs have not only kept the factories but also tried to revive them. They bundled the production resource of Western targets for different reasons: 1. using the production basis in the Western country to serve the high-end market, since all sample POEs have the ambition to become full range provider serving all client segments; 2. using combined production to solve the high production cost problem of the targets and the problem of “liability of origin” of the Chinese POEs, as mentioned in 4.1.1; 3. to avoid trading barriers. According to our interviews, except West Tool 4, the remaining Western targets with production facilities increased their production thanks to the mutual exploitation of the Chinese middle- and high-end market. Sino Textile, Sino Knitting and Sino Motor organized joint production. They let key components of certain machines produce by targets and produce normal standard components in China to reach two goals – to obtain the country label of the target and to reduce the costs of the target firm. Sino Copper and Sino Metal used the production facilities of their targets to serve clients in countries which imposed anti-dumping taxes on Chinese products, while their Chinese factories produce for the clients in the rest of the world.

Promising to retain the production bases of the Western targets and to revive them by bundling own resources was an important reason why Chinese manufacturing POEs could win against Western investors in the acquisition bidding process. West Outdoor and West Textile revealed that during the official bidding process, a few well-known European companies were willing to acquire them at very
attractive prices, but they finally preferred Chinese investors because they promised – as opposed to the Western competitors - to keep the Western production base without layoffs and to leverage on complementary resources.

4.3.1.4. **Horizontal asset bundling of marketing assets (set 4 – set 4)**

Chinese POEs in our sample bilaterally redeployed marketing resources. They wanted to exploit the potential value of Western brands in the Chinese market by bundling the Western brand with own marketing skills and distribution channels in their home market (observed in 11 cases, cell (I,8)). They linked their marketing skills and distribution channels with those from the targets in order to open new markets for each other’s products (observed in 11 cases, cell (J,8)). The promise of protecting the long 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 Tool1, West Tool 2 and West Textile* all faced the same situation that famous Western competitors in the same industries were eager to acquire them and to eliminate the acquired brand. Preserving the long traditional brand was the decisive factor in favour of the Chinese bidder. Contrary to Western peers, Chinese POEs were missing brand and long tradition. The following quote delivers the respective evidence.

“*Big Tool, the biggest tool producer in the US, wanted to buy West Tool 1. Although Big Tool is the number one concerning the total sales, in the field of staple tools West Tool 1 had the largest market share and Big Tool was only the second largest in US. So both companies were competitors. We were West Tool 1’s supplier – ODM/OEM supplier, not a competitor. If West Tool would be sold it to their competitor, the price would be very high. But in this case West Tool might only be able to survive for a few years; in the long run, Big Tool would have no rivals in the market after the merger and they would assimilate West Tool into their own brand - this is a taboo for a century-old brand. As the OEM-partner, our own brand is too weak. After the merger, we will continue West Tool 1’s brand. For the inheritors of family companies and century-old brands, their first concern is not money, but the continuation and positive development of brands and business. “*” (Vice President, Sino Tool)

Beside the mutual reconfiguration of the existing marketing resources from Chinese POEs’ and Western targets, both sides also jointly explore new markets. Since *West Outdoor’s* brand was only well-known in the German speaking regions of Europe, *Sino Outdoor* and *West Outdoor* decided to “Europeanise” the *West Outdoor* brand by promoting it in large European countries such as France, Italy and UK. Both goals – Europeanization and conquering Chinese market are mutually reinforcing, because if a brand is well accepted by French, British and Italian consumers, Chinese consumers will also flock to buy it. Also, *Sino Tools, West Tool 1 and West Tool 2* were on the way, jointly marching into Europe.

4.3.1.5. **Horizontal asset bundling of managerial assets (set 5 – set 5)**

Cell (K,9) indicates the human resource bundling which refers to bilateral redeployment of personnel and managerial capabilities. In all 15 cases frequent personnel exchanges between Chinese POEs and their targets can be observed as well as the periodical counterpart management meetings.

4.3.2. **Vertical asset bundling**

Vertical asset bundling refers to resource combinations across business processes. The pairwise combinations of R&D resource and production resource (set 2 – set 3), R&D resource and marketing
resource (set 2- set 4, set 4 – set 2), manufacturing resource and marketing resource (set 4 – set 3) in Table 7 belong to vertical asset bundling.

4.3.2.1. **Vertical asset bundling between R&D resource (set 2) and manufacturing resource (set 3)**

The vertical asset bundling between products of Western target firms and Chinese production (cell F,7), and between R&D and innovation of Western targets and Chinese production (cell G,7) are evidenced in 11 and 8 cases respectively. This kind of resource combination is a logical result of global resource allocation triggered by the industrialization of emerging market economies. As argued in many literatures, Chinese firms enjoy competitive advantages in the manufacturing industry (Stucchi 2012), but they are missing cutting edge technology, well designed products and innovation capabilities. In contrast, Western targets are facing increasing costs and rising competitive pressure from EMNCs. Combined businesses can strengthen the ability to provide first-class products and services at competitive prices. All Chinese manufacturing POEs applied this type of vertical asset bundling. *Sino Tool, Sino Copper* and *Sino Metal* encouraged their targets to reactivate numerous sleeping products - which the targets once successfully produced for mass markets but later on froze due to fierce price competition - in order to help them return to medium markets. *Sino Metal* restarted the production of around 2'000 products from *West Metal*’s earlier catalogues.

*Sino Comm* is the only high-tech firm in our sample, which also conducted vertical asset bundling by producing the communication device designed by *West Comm*.

In general, this kind of vertical asset bundling has not only enhanced the efficiency and competitiveness of the target firm and stabilized its business, but has also enriched the product shelf of the combined business.

4.3.2.2. **Vertical asset bundling between R&D resource (set 2) and marketing resource (set 4)**

Bundling between R&D and marketing resources was very common in both directions, between R&D resources from targets and marketing resources from Chinese POEs (set 2 – set 4) as well as between R&D resources from Chinese POEs and marketing resources from targets (set 4 – set 2). Five pairwise combinations (“technology – marketing skill & distribution channel” in cell (E,8), “product – marketing skill & distribution channel” in cell (F,8), “R&D and innovation – marketing skill & distribution channel” in cell (G,8), “brand & reputation & long tradition - technology” in cell (I,4), “ marketing skill & distribution channel – technology” in cell (J,4), were evidenced in more than 10 cases. This symmetric redeployment of R&D and marketing resources suggests that acquiring and acquired firms exchange resources in order to build upon their respective strengths.

Western targets generate, by combining their technology, product & innovation with the marketing resource from Chinese POEs, great opportunities to enter Chinese / Asian markets. This type of bundling confirms Hennart’s theory (Hennart 2009, Hennart 2012, Hennart 2018) – Chinese POEs control the
untradeable local resource such as market access, distribution channel and client relationship and are, therefore, able to bundle technologies from Western firms through CBMAs. *West Outdoor, West Textile, West Knitting* and *West Construct* were all beneficiaries from this type of vertical asset bundling.

Chinese POEs, by combining marketing resource such as brand and marketing skills from targets with their own technology and products, can climb up to higher levels in the value chain. *Sino Outdoor, Sino Tool, Sino Comm* used the brand of their targets for some of their own products in order to gain higher margins and entering higher end markets.

There is a big risk in bundling Chinese products with Western brands (observed in 8 cases in cell (J,5)): Whether Chinese products can meet the Western companies’ levels in quality, credibility and craftsmanship spirit. Many Western managers were particularly concerned about this. *West Outdoor’s* CFO is one of them.

> “Usually Chinese companies have great expectation that they will make the most of the acquired brand and its market value in order to push forward their own internationalization. They call such actions as ‘Europe’s hundred-year old brands grafted onto Chinese power’. *Sino Outdoor* is facing the challenge: how to correctly make use of *West Outdoor’s* trademark? Our big boss in China was eager to put the country image of *West Outdoor* on everything he sold... *West Outdoor* is one of my favourite brands – even before I joined the company. I feel having a strong responsibility to protect this brand. I don’t want this hundred-year old trade name to be ruined. I always try to remind my boss: You have spent so much money and time to buy this brand, why don’t you cherish it and protect it?” (CFO, West Outdoor)

Since the acquisitions in our samples happened only recently, we must keep observing the further development of the cases.

### 4.3.2.3. Vertical asset bundling between marketing resource and manufacturing resource (set 4 – set 3)

The bundling between brand, reputation and long tradition with production & cost management is found in 10 cases in cell (I,7). All 8 manufacturing Chinese POEs and 10 Western manufacturing targets were involved in this kind of bundling which had existed in form of outsourcing contracts - OEM/ODM contracts prior to the acquisition when Western firms had the lead and EMMCs played the role of low-cost partners. After the acquisition, external resource bundling has been changed into internal resource bundling since numerous EMMCs such as the Chinese POEs in our sample internalized Western brand firms through CBMA activities (C1,C2,C3,C4,C6) and took the lead as integrators. Reviving Western brands and keeping them brilliant, maintaining efficient production and finally maximizing the margins were the overarching bundling goals.

### 4.3.3. Other types of asset bundling

Beside the horizontal and vertical asset bundling, 5 resource combinations fall in the group of other types of asset bundling.

Type 1 encloses the combinations between the country-level resource of Western targets and Chinese production resource (set 1 – set 3). The bundling of Western country image & country of origin with
Chinese production in cell (A,7) is evidenced in 11 cases; the bundling of Western craftsman spirit with Chinese production in cell (D,7) is evidenced in 10 cases.

Type 2 is composed of the combinations between the country-level resource of the targets and the marketing resource of Chinese POEs (set 1 – set 4). The bundling of Western country image & country of origin with Chinese marketing skill and distribution channel in cell (A,8) is evidenced in 10 cases.

The rationale behind type 1 and type 2 is to utilize the commercial value of Western country image and at the same time to keep the production cost low. All Chinese manufacturing POEs applied this type of bundling in order to compensate for the liability of the country of origin. **Sino Comm** is the only high-tech firm in our sample that was also involved in these types.

Type 3 includes the combination of Western R&D resource with Chinese country-level resource (set 2 – set 1). The bundling between Western technology and Chinese home market in cell (E,1), the bundling between Western technology and Chinese labor in cell (E,2), the bundling between Western product and Chinese market in cell (F,1), the bundling between Western product and Chinese labor in cell (F,2) and the bundling between Western R&D and innovation resource and Chinese market in cell (G,1) are all evidenced in more than 10 cases.

Type 4 covers the combination of Western Marketing resource with Chinese country-level resource. The bundling between Western brand, reputation & long tradition and Chinese market in cell (I,1) is evidenced in 11 cases. Through this type of bundling, Chinese POEs develop the potential value of Western corporate brands for the Chinese market. All Chinese manufacturing firms and **Sino Comm** did this.

Type 5 contains the combinations between diverse resources of Western targets with the financial resource of Chinese POEs. Chinese POEs often provided the targets with financial support to strengthen the country-level resource and firm-level resources. In our sample, Chinese POEs bundled their financial resource with all sets of targets’ assets. **Sino Outdoor** provided financial resource to West Outdoor to implement its innovation ideas that previously had been locked in for several years. In order to enhance the Chinese consumers’ awareness of West Outdoor’s products, **Sino Outdoor** invested a lot of money into the promotion of its country image and brand. **Sino Motor** helped West Motor build up a new research center in two production bases in Germany. **Sino Construct** kept its investment promise and enabled West Construct to double its employees in Switzerland over the past 10 years. 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 Chinese POEs and the target firms and to avoid brain drain. Both **Sino Comm** and **Sino Knitting** experienced a period of mistrust and lost talent shortly after the acquisition closed.

"The most important is to gain the trust of your partner and vice versa...In our industry, German people have witnessed few cross-border acquisitions conducted by Taiwanese. They closed down German factories once they obtained all the technologies after the takeover. Many Germans lost their job. That’s what people are afraid of."
But when we go there, we increase our investment into their business. Firstly, Sino Comm’s platform facilitated West Comm’s sales and improve their revenue more quickly; secondly, we keep pumping financial resource investing in their company, enlisting R&D and sales staffs and we have helped them construct a big building. Finally, German newspapers reported very positive about us.” (CFO, Sino Comm)

The CFO of West Comm confirmed the statement of Sino Comm’s CFO.

“During the transition period we had a relatively high fluctuation rate because many people said: oh, we don't know what happens when Chinese come. Especially, young talents left the firm. We lost 20% of our young people…Finally, what helped to calm the situation were the investment into new building for administration & research and our proposal to Chairman to introduce a retention payment. All employees who stay in the company for two years after the acquisition, will receive a one-time-retention payment.” (CFO, West Comm)

The situation was similar in Sino Knitting and West Knitting. It was only after Sino Knitting bought the land and the production and R&D building in Europe that people of West Knitting believed in a positive future.

5. Discussion

5.1. What assets do Chinese POEs possess prior to the CBMAs?

Our research confirms the country-level assets of Chinese firms as Hennart stated (Hennart 2012, Hennart 2018) but contradicts the often stated assumption, that Chinese companies possess no FSA (Rugman 2009). We could observe the following asset profiles of Chinese POEs prior to their CBMAs.

On country level, the Chinese POEs possessed the commonly recognized CSAs – big home market and cheap labor (Rugman 2008). They enjoyed (and still enjoy) certain governmental support (Luo et al. 2010, Wang et al. 2012) which - however – lagged (and still lags) clearly behind the support for SOEs. Most of the Chinese POEs suffered from the bad country image and struggled with getting recognition by Western business partners and consumers.

On firm level, our findings indicate that each of these sample Chinese POEs has developed knowledge-related FSAs (He et al. 2019), which have helped to facilitate their asset bundling activities in internationalization. This Chinese manufacturing and high-tech POEs revealed different profiles. The manufacturing firms had leading positions in the home market. They were efficient producers and excellent cost managers. Thanks to the partnership with Western firms, they were able to develop leading production and product development technology, enjoying latecomer advantages, and subsequently to deliver competitive products for mass markets. Some of them became even able to produce high-end market products at the highest quality levels. Their product lines got more diversified than those of their targets. They were highly successful in incremental cost- and client-driven innovation and used big data and social networking technology to gain a deep understanding of their clients’ needs and behavior in the home market, based on rigorous client orientation. However, most of them were lacking of a worldwide-recognized brand and long tradition. They had a poor position in high-end markets and were inferior in fundamental innovation. Whilst many companies were run by visionary
leaders (Tsui et al. 2017), they were missing technological expertise and talents with international experience. The high-tech POEs represent a different profile as they were born in Chinese high-tech parks and grew up to world-leading companies in their sector in a short period of time. They provide global clients with cutting-edge technologies and unique products, and possess innovation-related FSAs (He et al. 2019). They are often first movers in specialized fields. Both types of companies, manufacturing as well as high-tech POEs, had sufficient financial resources for strategic asset acquisition. Almost all had invested heavily in R&D.

Through detailed analysis of multiple asset portfolios, we learn that the profile of Chinese companies has massively changed over the past three decades. They developed from low-cost partners of Western multinational companies with inferior technology to serious global competitors in many fields by absorbing Western technology and successfully docking with the digital revolution (Deloitte 2014, Li 2018). However, neither the Chinese manufacturers nor the high-tech firms in our sample have built up global sustainable competitive advantage according to the VRIO framework - defined by (Barney 1991) prior to their CBMA activities. The country-level assets linked with CSAs such as big home market and cheap labor exist in other emerging markets like India, South East Asian and South American countries, too. Some firm-level assets that Chinese companies possess, e.g. production expertise, can be easily copied. Due to rising labor costs in China, a significant number of factories, e.g. in the textile industry, have been moved to South East Asian countries with even lower labor costs (Vietnam, Bangladesh, etc.). Although many Chinese high-tech firms are experts in certain parts of their industrial value chain, they cannot cover the whole value chain to provide total solutions.

5.2. What strategic assets do Chinese POEs try to obtain through CBMAs in DCs?

Addressing their competitive disadvantages such as bad country image, lack of well recognized brand and lack of cutting-edge technology, Chinese POEs sourced strategic assets – reputation, brand, technology, innovation capability and new market access (Teece et al. 1997, Barney and Arikan 2001) through CBMAs in DCs. Our study confirms this essence of mainstream literature (Deng 2007, Luo and Tung 2007, Deng 2009, Lu et al. 2011). However, the detailed analysis of the asset profile of Chinese POEs reveals that their strategic asset seeking activities were driven and affected not only by their gaps but also by their own assets including both CSAs and FSAs (Marinova et al. 2011). Bundling their own competitive advantages with acquired assets made CBMAs a highly attractive activity, not the acquired assets per se. CBMAs by Chinese POEs can only be understood in this context which extant literature has contributed little to.

Furthermore, we can observe specific characteristics of asset seeking activities by manufacturing firms on the one hand and high-tech firms on the other hand. Given their initial asset profiles and based on sophisticated asset bundling plans, the manufacturing Chinese POEs typically targeted Western companies which were able to complement them (Deng 2009, Cui et al. 2014) with
1. technologies and brands to give them a cutting edge over their competitors in China;
2. an upgrade of their product shelf;
3. access to the Western and global market.

They sought these strategic assets not only because they missed them but because they had own advantages which could be combined with the acquired assets, like big home market for western products, advanced production ability to produce brand products, sophisticated market knowledge in emerging markets to market Western brands, cost-oriented and client-driven innovation ability to optimize and exploit Western technology. Overarching strategic goal was and still is to develop towards a full range provider serving all client segments globally and/or pushing significant competitors out of the home market. The high-tech Chinese POEs, on the other hand, sought Western upstream and downstream technology to be integrated into their own cutting-edge technology and thus to become a total solution provider for their strategic client segment. Above all, the cross border asset bundling activities of the sample companies is driven by interplaying their home country based CSAs and ownership based FSAs (Marinova et al. 2011).

5.3. How do Chinese POEs bundle the acquired strategic assets to create synergies?

Bundling strategic assets and redeploying them for competitive advantages appear as pre-eminent outcome of cross-border acquisitions conducted by Chinese POEs. Our empirical study evidenced that Chinese POEs bundled complementary assets such as country image, craftsman spirit, advanced technologies, brands, initial innovation power and access to high end markets with their own assets such as efficient production, technologies for mass markets, incremental innovation power, rigorous client orientation and cost optimization, home market access and financial resource, trying to realize the full value of these strategic assets (Sirmon and Hitt 2003, Sirmon et al. 2011). We observed three categories of asset bundling – “horizontal asset bundling”, “vertical asset bundling” and “other asset bundling”. Operational synergy, collusive synergy (Chatterjee 1986) and growth synergy (Wöginger 2004) potential were generated through these asset bundling activities of Chinese POEs as the acquisitions played a vital role in increasing business efficiency, effectiveness and market power.

Synergies generated through horizontal asset bundling

Horizontal asset bundling created operational synergies (efficiency enhancement), collusive synergies (market power increase) as well as growth synergies (business expansion).

Operational synergies were created by a pairwise horizontal bundling combination (combination of manufacturing resource), where Western targets and Chinese POEs produced different components for the same products or for different products serving different client segments, allowed for production optimization. The production cooperation between Sino Knitting and West Knitting and between Sino
*Motor* and *West Motor* enabled the integrated groups to cover a broader range of client segments in an efficient way which can be considered as best practices for operational synergies.

Collusive synergies were exploited by Chinese POEs through three pairwise horizontal bundling combinations (country image – big home market, craftsman spirit – big home market, product – product) and three pairwise vertical bundling combinations (country image – marketing skills/channels, technology – big home market, brand/reputation & long tradition – big home market). Western country image, craftsman spirit, brand and technology enjoy high reputation by Chinese consumers. Bundling these assets with their own marketing power, Chinese POEs were able to apply higher product prices in their home market. Using well-known brands, *Sino Tool, Sino Textile, Sino Copper* and *Sino Motor* even gained pricing power in world markets. By integrating Western and Chinese products the combined manufacturing firms were able to serve a broader range of client segments, to increase their market influence and to move towards full range providers. The combined high-tech firms were able to extend their value chain and to become total solution providers.

Growth synergies were mainly created through market combination, marketing resource combination, technology combination, product combination, and R&D resource combinations. Docking Chinese and Western markets and marketing resources enabled the acquiring Chinese POEs and the Western targets not only to support each other by entering new markets on a reciprocal basis but also to jointly enlarge their customer bases. *Sino Outdoor* assisted *West Outdoor* in accessing the Chinese high-end market, while *West Outdoor* used its platform to introduce *Sino Outdoor’s* mid- to low-end products to the German-speaking market. Together, the integrated companies started to explore non-German-speaking regions in Europe. Furthermore, they refined their client segmentation by adding new subsegments for client groups with specific demands like mountain climbers, mothers with babies, etc. In terms of technology integration, our study provides evidence that technology transfer between Chinese POEs and Western targets went in both directions, which is different to the one-direction “reverse knowledge transfer” argument (Di Minin et al. 2012, Ciabuschi et al. 2017, Peng et al. 2017). Chinese manufacturing POEs appeared as flexible and dynamic experts in mass-market products with substantial customer-driven and cost-optimized innovation power. Western manufacturing targets stood out in craftsman spirit, specialized high-end and niche markets, and in initial innovation. Both sides were able to complement each other for optimized technology and accelerated product development. Together, they developed cutting-edge products. Technology combination, mutual product development and innovation jointly delivered by *Sino Knitting* and *West Knitting* are best practices. They developed the most advanced 3D knitting machines. Once *West Knitting* had implemented *Sino Knitting’s* cost optimization it managed to extend its client base from a very limited niche group to medium markets. *Sino Knitting*, in turn, could keep its technology leadership in China supported by *West Knitting* and increased its market share in Asia. In high-tech acquisitions, Chinese POEs and Western targets possessed complementary leading technologies for different elements in the industry value chain. The combined technology increased their chance of acquiring project mandates and creating integrated
holistic solutions. Through the horizontal bundling of R&D resources, Sino Middleware and West AutoSoft managed to design and deliver smart cockpits for global car producers.

**Synergies generated through vertical asset bundling**

Vertical asset bundling results in operational and growth synergies.

Operational synergies were created in four pairwise vertical bundling combinations (product – production, R&D - production, brand/reputation & long tradition – production, brand/reputation & long tradition - technology), in which the Western targets - West Outdoor, West Tool1, West Tool 2, West Textile, West Construct, and West Comm - achieved cost savings, business stabilization and enhanced brand and product competitiveness.

Growth synergies were observed by the vertical bundling combination of Western products with Chinese marketing skills & channels which enabled West Outdoor, West Textile, West Motor, West Comm and West AutoSoft to either enter into Chinese market or to enlarge their market share in China.

**Synergies generated through other asset bundling**

Other asset bundling in our cases created operational synergies.

In three pairwise other bundling combinations (country image – production, technology – cheap labor, product – cheap labor), Western country image, technology and products were combined with Chinese efficient manufacturing skills and facilities. The combined business gained reputation and cost efficiency.

**Synergy building “private” for CMNCs**

The synergies consist of operational, collusive and growth synergies, created through asset bundling by Chinese companies in CBMAs. It is “private” according to Barney (1988)’s definition, since it cannot be easily imitated by Western incumbents on a standalone basis. They found it extremely difficult to match the complete asset profile of CMNCs. To this end, Western firms would not only be required to access CSAs in China but also to gain the FSAs of Chinese companies such as efficient production ability, cost-oriented and client-driven innovation power as well as marketing skills, all at the same time.

6. **Conclusion**

While extant literature highlights 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 contributes by shedding light on what specific assets they are looking for, what kind of initial asset profile enables them to fruitfully acquire and subsequently bundle the target assets, and how they bundle the acquired assets with their own assets in order to create economic value.
“Strategic asset acquisition” was in previous literature largely looked at as a context-free concept. However, it is essential to put strategic asset acquisition in context with the specific CSAs and FSAs of Chinese companies which seek different strategic assets than companies from DCs, given their initial asset profile, meaning that strategic asset acquisition is an idiosyncratic concept by its nature. Furthermore, asset bundling is a highly entrepreneurial international activity.

This in-depth-research of the topic helps researchers as well as practitioners gain a better understanding of the MNCS’ dynamic capabilities which drive their performance. Using 15 cross-border acquisition cases conducted by Chinese POEs, we make the following contributions to the existing literature:

1. Previous literature has rarely treated Chinese POEs as a separate research object; our study adds knowledge about the internationalization of Chinese POEs which differ from Chinese SOEs particularly in terms of managerial dynamics and market-orientation.

2. The segregated view on the asset profile of the Chinese companies at country and firm level and the cross-case analysis of the acquirer and the acquired company shed light on why and how Chinese companies were able to bundle Western strategic assets for improved capabilities. Our study not only confirms Hennart’s bundling theory (Hennart 2009, Hennart 2012, Hennart 2018), but also extends it. Hennart argued that EMNCs could bundle the intangible assets from Western companies because they controlled the access to local resources such as to local market, cheap labor and special relationships. Our data show that Chinese POEs were able to bundle Western technology, brands and access to high-end markets not only due to their CSAs but also their FSAs (efficient production technology, cutting-edge high technology, sophisticated client knowledge, cost optimization skills, aggressive marketing and client-driven innovation power) which they had developed in high-velocity markets (Marinova et al. 2011). The total asset profile composed of CSAs and FSAs makes asset bundling by Chinese POEs in DCs possible and is almost inimitable for Western firms. Asset bundling created private synergy (Barney 1988) potential which Western co-bidding competitors could not offer. For example, Chinese POEs bundled Western brands not only with their big home market, but also with their own financial, production, innovation and marketing resource. They revived the brands through product line extension, market development and efficiency increase in China. Western co-bidding competitors often had similar asset profiles like the target firms and could hardly offer a bundling case as complementary as the Chinese POE was able to do. Hennart (Hennart 2009, Hennart 2012, Hennart 2018) emphasized the privilege of local resource but undervalued the FSAs of EMNCs which may, however, have only developed in the last years. Our study reveals the importance of the specific FSAs of Chinese POEs and confirmed that the interplay between CSAs and FSAs enabled CMNCs’ asset bundling through CBMAs (Marinova et al. 2011).

3. In more detail, we contribute to the literature by showing which vertical, horizontal and other asset bundling activities across EMNCs and Western companies frequently occur in CBMAs, along six sets of strategic assets that were developed based on Capron et al. (1998).
Our work has managerial implications for companies in DCs as well as in Emerging countries. Our findings related to the asset profile of Chinese POEs enhance and enlarge information about CSAs, FSAs and gaps of Chinese companies. The commonalities of asset bundling in our samples help Western managers better understand the internationalization strategies of Chinese companies. In contrast to widespread assumption that Chinese acquirers conduct one-direction know-how transfer to China (Di Minin et al. 2012, Ciabuschi et al. 2017, Peng et al. 2017), that they close down Western business bases and cause social dumping (Raess 2019), our study provides evidence for the opposite. We observe that technology exchange, joint innovation and additional investment into target companies happened in almost all cases, which enhanced the technologies of both sides, enriched the product offering and accelerated speed to market as Reid (2019) stated. This also supports the argument of Woetzel et al. (2015) that China can become platform for accelerated innovation.

Chinese companies maintain acquired Western companies as their centers for high-end markets in terms of product design, R&D, marketing and production. They also keep and use Western brands for marketing purposes. We find strong evidence that Chinese POEs as acquirers often combine resources from both sides to reconfigure the post-acquisition business and to create win-win results, rather than simply obtaining resources from the targets for their unilateral benefit.

Our research also discloses the ambition of Chinese manufacturing firms - struggling with serving all client segments – to become a full-range provider covering all client segments, including the higher end. They want to further develop the middle and lower end to avoid the mistake that many Western manufacturing companies made. Western companies had focused on the high-end and given up their middle- and lower-client segments leaving them to their competitors, resulting in shrinking client bases and rising costs. The ambition of the Chinese high-tech firms is to develop themselves to become total solution providers.

Managers of EMNCs may find helpful insights into asset bundling activities in the preparation phase as well as in the negotiation and integration phase. Deep understanding of the asset profiles of both parties and recognition of unique private synergy potential which benefits both sides can substantially increase the bidding success ratio.

This study has some limitations and further research is required. First, there might be a success bias. Almost all cases were successful in acquisition and asset bundling. 14 of 15 cases presented combined revenue and profit growth and client base extension. It is a common phenomenon that managers of successful businesses are more open for interviews than managers of less successful businesses. However, we should add that none of the requests for interviews was rejected. Second, we had the opportunity to interview executives of both the acquiring and the acquired side plus external experts, however we excluded former managers and clients. Third, we focused on CBMA cases and ignored other FDI activities of Chinese POEs (mainly Greenfield investments) which might constrict the
understanding of their overall strategic thinking. Fourth, we focused on POEs of which we assume a
different internationalisation behaviour than of SOEs, which we, however, did not empirically analyse.

There are two phenomena we observed but did not include in our analysis:

1. In order to deploy the full potential of the acquired assets, Chinese POEs usually bundled them
   with their own resources not on a pairwise basis but in multi-dimensional combinations. For
   example, Western brands and technologies and products were bundled with cheap labour,
   production facilities, marketing and financial resources from China, all at the same time. Thus,
   investigating pairwise bundling helps to get a structured view but is only a part of the total
   picture.

2. Chinese POEs used to commit themselves to a light touch approach in the negotiating process.
   In all our cases, this was confirmed in the short-term after the acquisition. In some cases,
   however, there was evidence that the integration became tighter two to five years after the
   acquisition.

Thus, based on the findings and limitations of this study, a detailed analysis of the multi-dimensional
bundling of strategic assets of the Chinese acquiring MNCs and the Western targets in CBMAs and an
even more longitudinal investigation of the cases, considering potential changes between the short- and
the middle-term integration, are promising avenues for further research.
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Abstract
Building on the resource-based view and based on 33 interviews with top executives of 11 Chinese private owned enterprises (POEs) and 15 Western target companies, this study is an in-depth multi-case analysis of Chinese cross-border merger and acquisitions. While literature has argued that acquisitions by Chinese companies in developed countries are motivated by asset-seeking, this study takes a more detailed look and investigates which exact assets are sought by POEs. Still a majority of the literature states that Chinese companies largely depend on their country-specific assets much more than on firm-specific assets. Our study contradicts this view and shows that in many cases Chinese acquirers possess valuable firm-specific assets. Knowing the specific asset profile of the Chinese POEs, their assets and gaps, helps understand what assets they seek when they acquire Western companies. Furthermore, our study shows how they bundle strategic assets of acquired companies in developed countries with their own assets to create synergies. Different from the common view, our study provides evidence that technology transfer between Chinese POEs and Western targets went in both directions.

Citation proposal
Juan Wu, Dirk Morschett 2020. «M&A by Chinese POEs in Developed Countries. Acquiring and Bundling Strategic Assets». Working Papers SES 512, Faculty of Economics and Social Sciences, University of Fribourg (Switzerland)

Jel Classification
M16; F23

Keywords
Cross-border M&A; Strategic Assets; Asset Bundling; Chinese MNCs; EMNC.