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Sunny Li SUN

Hao LIANG
Singapore Management University, hliang@smu.edu.sg

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MORPHING:

THE LINKAGE OF INWARD PRIVATE EQUITY AND OUTWARD VENTURES

Sunny Li SUN*

Department of Global Entrepreneurship and Innovation

The Bloch School of Management

University of Missouri - Kansas City

5110 Cherry Street, Kansas City, MO 64110-2499

sunsli@umkc.edu

Hao LIANG

CentER Graduate School

Tilburg University

5000 LE Tilburg

The Netherlands

H.Liang@uvt.nl

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Abstracts

Private equity is impacting the global economy and competitive landscape of multinational enterprises (MNEs) worldwide. In this pioneering study we find an important new pattern for global inter-firm connections: an ***inward*** private equity investment is inductive for emerging MNEs to conduct ***outward*** venture. This inward-outward linkage implies that emerging MNEs are more likely to undergo a series of organizational changes after receiving private equity investments. These changes include restructuring their boards of directors, rebuilding their top management teams, reconfiguring their corporate resources, reframing the industry structure, and altering competitive dynamics. These organizational changes induce emerging MNEs to modify their strategies such as speeding up the internationalization process, locating additional outward ventures in advanced economies, and choosing more complex entry modes, particularly cross-border M&As. We describe this type of evolving internationalization of emerging MNEs as a "morphing" process with in-depth case studies on emerging Chinese MNEs including Lenovo, Zoomlion, Geely, Alibaba.com, Huawei, NVC Lighting, and BYD.

Keywords: emerging economy multinational enterprises (EE MNEs), internationalization, inward-outward linkage, private equity.

Like animals in a zoo, multinationals (and their affiliates) come in various shapes and sizes, perform distinctive functions, behave differently and make their individual impacts on the environment.
--- John Dunning, 1974

The past decade has witnessed many Chinese firms aggressively expanding worldwide (UNCTAD, 2009; Peng, Sun, & Blevins, 2011). Previous research has proposed various explanations on the driving forces behind China's rapid oversea ventures (Deng, 2012), such as corporate ownership and capital (Morck, Yeung, & Zhao, 2008), strategic resources (Deng, 2007), organization learning (Li, 2010), government involvement (Wang, Hong, Kafouros, & Wright, 2012), and the comparative ownership advantage (Sun, Peng, Ren, & Yan, 2012). However, a new type of firms have emerged among those international investments that are "born global" by directly setting up ventures or acquiring firms in other economies, particularly developed countries. The existing literature has largely ignored the internationalization of private equity as an important trend in capital globalization.

The private equity industry is impacting the global economy in terms of both size and geographic reach. The total value of private equity investment in firms worldwide was estimated to be $3.6 trillion from 2001 to 2007 (Gurung & Lerner, 2008). These private equity investments are also undergoing rapid internationalization (Cumming, Sapienza, Siegel, & Wright, 2009; Gu & Lu, 2010; Guler & Guillen, 2010b) fueled largely by institutional investors from advanced economies in the U.S. and Europe. The past few years have also witnessed a boom in private equity activities within the developing world, primarily driven by the rapid growth of these emerging economies and the relaxation of capital control on foreign investment in many of these countries.[1] For example, as the world's largest emerging economy China has become one of the major destinations for private equity

[1] Josh Lerner, "Private equity in Developing Countries": http://www.people.hbs.edu/jlerner/develop.html.

investment and a hotspot of initial public offering (IPO) activities; approximately 45% of all 176 IPOs made in China during 2009 were endowed by a total of $15.6 billion in private equity investment.

Several important questions arise on the impact of internationalized private equity in China: (1) how does private equity investment in China from abroad (which we term as ***inward*** private equity in this study) change the corporate governance, professionalization, and strategic decision-making, as well as the organizational form of emerging economy multinational enterprises (EE MNEs)? (2) How do these organizational changes affect these EE MNEs' ***outward*** investment patterns and strategies? (3) How does such outward investment by EE MNEs change the competitive landscapes of their industries worldwide? In this study we focus on an important new phenomenon raised during the current wave of globalization: inward private equity investment tends to promote Chinese firms' outward foreign direct investments, which we call an ***inward-outward linkage***. We call the emergence of this new species in MNE zoologies (Dunning, 1974) as a "morphing" process, a biological metaphor referring to how "an animal physically develops after birth or hatching, involving a conspicuous and relatively abrupt change in the animal's form or structure through cell growth and differentiation" (Wikipedia.org). While the rules of the game and competitive landscapes in the global business arena are experiencing fundamental shifts, the organizational forms, functions, and competitive advantages of these firms are also rapidly changing and dynamically coevolving. Rindova and Kotha (2001) describe such organizational change as a "continuous morphing" process. Following their definition we aim to use this "morphing" metaphor in order to integrate three streams of literature - including international entrepreneurship in the IB literature, organizational forms and resource-based view in the organization and strategy literature, and private equity in the entrepreneurial finance literature - to identify new driving forces behind the current wave of OFDI and overseas venturing of Chinese firms as well as contribute to a growing body of research on organization adaptation. The “morphing” processes we describe here include changes in corporate ownership, board structure, the composition of the top management team, corporate resource configuration, industry structure, and the competitive dynamics within and among these industries. These organizational changes could modify EE MNEs’ OFDI and overseas venturing strategies by effectively leveraging corporate resources and speeding up learning.

Our study makes these contributions. First, the metaphor of “morphing” clearly depicts the catch-up trajectory of EE MNEs as they progress from newcomers to latecomers (Mathews, 2006) and helps combine several literature streams. IB scholars traditionally prefer to use metaphors and scripts in introducing new knowledge, such as Dunning’s (1974) metaphor on “MNE zoologies.” Metaphors help creatively decipher original meanings, construct new concepts in theory production (Cornelissen, 2005), and make new knowledge differentiated and evolved (Boxenbaum & Rouleau, 2011). The outward investment of Chinese MNEs backed by inward private equity has different destinations and magnitudes that exhibit distinctive functions and strategies from developed economy MNEs (DE MNEs) (Peng, Sun, & Blevins, 2011). In line with the literature on international entrepreneurship (Oviatt & McDougall, 1994), we find that Chinese MNEs rely strongly on alternative governance structures such as establishing a strategic alliance with private equity partners in order to access private equity’s resources in their outward investment and venture; this is substantially different from DE MNEs’ OFDI patterns. This new “species” is also continuously evolving so as to adapt to global business environment changes (Sun, Zhang, & Chen, 2013), while at the same time reframing the industry structure and altering competitive dynamics within and across industries that were previously dominated by incumbent DE MNEs.

Second, we develop an “inward-outward linkage” perspective (Gu & Lu, 2010) that helps contribute to the organizational form theory in the organization field and the value creation theory in the strategic management field. In a broad sense an organizational form is defined as "the configuration of products, services, resources, and structures that define an organization as a distinct entity and as a provider of a particular type of product or service" (Rindova & Kotha: 2001: 1273). How the organizational form changes in and adapts to a competitive environment is a central organization and strategy research question. There has been a fierce debate in the MNE literature on whether or not the internationalization strategies of EE MNEs as latecomers differ from the traditional international strategies used by MNEs from advanced economies (Mathews, 2006; Narula, 2006). Mathews (2006) argued that EE MNEs as challengers develop a distinctive organizational form in source linkages, leverage, and learning in order to overcome the (sometimes) strong resistance of incumbents. Our findings in this paper suggest that EE MNEs' outward investments supported by inward private equity can re-construct their resource portfolios, re-bundle these resources in order to build new capability, and leverage this new capability in order to exploit new opportunities. This "inward-outward linkage perspective" on resources accessed via internationalization can inspire scholars to rethink the criteria normally used in the traditional resource-based strategy view that focuses more on firms' internal resources (Lavie, 2006), as well as further develop the value creation and capture theories in the strategic management field (Lepak, Smith, & Taylor, 2007).

Third, we enrich the private equity (including venture capital) literature using this new perspective of inward-outward linkage. The traditional private equity literature focuses on the conflicts between an agent (entrepreneur) and a principal (investor); private equity as a financial intermediation could alleviate both moral hazards and adverse selections (Bruton, Filatotchev, Chahine, & Wright, 2010). The agency theory then identifies the role of private equity investors as a principal in structuring financial contracts and monitoring a venture's managerial practice (Kaplan & Stromberg, 2001). Meanwhile, private equity investors also act as a "coach" in professionalizing the new venture by providing value-added services such as introducing stock option plans, hiring a vice president of sales and marketing, formulating human resource policies (Hellmann & Puri, 2002), and even appointing a non-founder as the venture's CEO (Hellmann, 1998). Private equity plays an active role in speeding up Chinese MNEs' internationalization in our "inward-outward linkage" perspective by reconfiguring resources and prompting more aggressive location and market entry strategies.

METHODS

We use an inductive multi-case study approach that is particularly suitable for investigating phenomena with limited extant theory on a rarely explored subject, such as the internationalization of private equity. According to Eisenhardt and Graebner (2007), using a case study approach for exploratory, descriptive, and explanatory questions typically yields novel and accurate insights into the phenomenon under study. It is also widely used in the international business field (e.g., Meyer & Altenborg, 2008; Piekkari, Welch, & Paavilainen, 2009). By analyzing via constant comparisons as well as validating both theories and data, we construct our theory by treating cases as a series of independent experiments. We examine relevant data collected from multiple sources such as surveys, interviews, and commercial databases, as well as publicly available data.

Data Sources We take into account the theoretical sensitivity to the sampling process and keep the process of data collection, codification, and analysis from becoming "steeped in the literature that deals with both the kinds of variables and their associated general idea that will be used" (Glaser, 1978:3). First, we focus on Chinese firms headquartered on the mainland but listed with private equity investment on the Hong Kong Stock Exchange (HKEX) because the HKEX requires listed firms to disclose private equity investment information in the firm's IPO files and annual reports. We identify five companies as occupying a fast track toward internationalization from 264 Chinese firms listed in the HKEX from 1993 to 2009 (including H share and privately-owned companies): Lenovo Group, Geely Auto, Alibaba.com, NVC Lighting, and BYD Auto. These five companies represent a wide span of industries including information technology, e-commerce, manufacturing, and new energy. We then determine the related internationalization information from corporate announcements, shareholder circulars, and other corporate communications (e.g. IPO report, annual reports, and prospectuses).[2] Second, we also validate information concerning private equity from the Zero2IPO Database; this is the only source for accurate, comprehensive, and up-to-date information on venture capital, private equity funds, firms, executives, and portfolio companies in mainland China. We also identified another case for Zoomlion; this firm was listed in mainland China rather than on the HKEX, but underwent a similar inward private equity investment and outward venturing process. Finally, we further reduce sample selection and firm survival biases by including the case of Huawei which failed in acquiring the U.S. company 3Com which was eventually acquired by Hewlett-Packard (HP). We follow Yin's (2002) criteria in assessing the appropriateness of the selected cases: "(a) a critical test of existing theory, (b) a rare or unique circumstance, or (c) a representative or typical case or when the case serves a (d) revelatory or (e) longitudinal purpose" (Yin, 2002: 45).

After identifying these seven cases we interviewed twelve entrepreneurs or top management team (TMT) members in these companies, and seven senior managers or private equity firm partners who have invested in these Beijing, Shanghai, Changsha, and Shenzhen companies during the last four years. These managers are from various functional departments including research and development

[2] http://www.hkexnews.hk/listedco/listconews/advancedsearch/search_active_main.asp.

(R&D), sales, marketing, and human resources management. We also interviewed two lawyers involved in these deals. Each interview lasted for one to two hours, and we conducted many follow-up interviews via e-mails and phone calls for data clarification and additional input. We collected 203 media reports related to these companies (in either Chinese or English) covering seven years of history. This long data collection span helps improve both our interpretation of the data and the construction of our systematical theories. Ddescription of these seven companies is shown in Table 1.

[Insert Table 1 about here]

Analysis We identify the similarities and differences in the organization morphing and transformation process by constructing a case history for each company based on 203 feature articles from various publications. We follow Rindova and Kotha's (2001) method for systematical "open coding" of firm actions in internationalization strategies by separating our data into instances, comparing these instances, and then reassembling them into a new order in order to characterize each company's "morphing" process. Based on the a number of commonalities and certain diversities in seven cases, Our triangulation generates a richness of information (Yin, 2002). This procedure conducted within and across cases allows us to identify the morphing processes associated with corporate governance changes, product innovations, resource deployment, and change of organizational forms and functions (Piekkari et al., 2009).

We also discuss our findings with colleagues, financial analysts at investment banks, media reporters who wrote relevant articles for these seven companies, and journal editors in related fields to validate our theories in following with other qualitative studies (Brown & Eisenhardt, 1997; Rindova & Kotha, 2001) in order to ensure the external validity of our results.

We verify the causal effect by carefully identifying the timeline of each company's "evolution" ("morphing") using the time intervals between the founding of a firm, the year of receiving private equity investment, and the year of the firm's international operations initiation. We also cautiously measure the stages and speed of a firm's subsequent international growth; for example, how fast did the firm increase its international sales between the time an initial internationalization strategy was formulated in a board meeting and the organizational morphing actually occurred (Autio, Sapienza, & Almeida, 2000)? This triangulation process allows us to identify the common patterns of morphing in the focal company, as well as specify the relationship between organizational changes and firm internationalization (Yin, 2002).

FINDINGS

The purpose of this study is to bridge the theoretical gap between private equity research and international business research, as well as identify a new species in MNE zoologies: emerging multinationals with an "inward-outward linkage." Our seven cases follow a broad definition of organizational form as the configuration of products, services, resources, and structures (Rindova & Kotha, 2001). We examine the evolution of these Chinese firms' organizational forms, and attempt to build the new theories based on the multiple-case comparison in order to examine what value-added services international private equity could provide emerging market firms while increasing exposure in economies such as China. We show a framework of inward-outward linkage in Figure 1. Recent literature indicates that the development of institutions and factor markets in EEs could change EE MNEs' strategies in corporate governance, resource orchestration, and market entry (Hoskisson, Wright, Filatotchev, & Peng, 2012). Our inward-outward linkage framework in Figure 1 illustrates how the advanced EE factor market could both attract DE private equity and change the competitive dynamics of EE MNEs.

[Insert Figure 1 about here]

Building Global Mindset and Leadership

Global mindset is a critical success factor associated with effective MNE management (Levy, Beechler, Taylor, & Boyacigiller, 2007). This mindset, namely the knowledge and heuristic structures of the board of directors and top management team (TMT), could affect international commitments and entry modes (Bingham & Eisenhardt, 2011; Nadkarni & Perez, 2007). However, in most Chinese firms it is rare that even leaders have many ambitious and clear global expansion plans. How can these key decision makers initiate and construct the cognitive capabilities required of global mindsets? This is the most important step in the outward venture morphing process. In our seven research cases we find that private equity plays an important role in helping Chinese firms build their global mindsets in both the board and TMT.

Some previous studies find that outside directors in public firms are replaced by individuals employed by private equity sponsors in many private equity deals, and that the private equity's board members are more involved in the invested companies' boards (Cornelli & Karakas, 2008). Private equity investors also act as a "coach" in professionalizing start-up firms (Hellmann & Puri, 2002). In our inward-outward linkage perspective we also find that directors appointed by private equity investors are more active on Chinese firms' boards. For example, Bill Amelio was appointed as Lenovo's first CEO after Lenovo acquired IBM's PC business in 2005. In a media interview[3] Amelio described his dealings with Lenovo's outside directors from a variety of professional backgrounds and two private equity investors, specifically how externally-appointed private equity personnel on the

[3] See Knowledge@Wharton, 2009, Bill Amelio talks strategy before departing as Lenovo's CEO. (http://knowledge.wharton.upenn.edu/article.cfm?articleid=2158).

TMT could bring new thinking to the firm:

"...A lot of them want to talk about the long term, but simultaneously, they want to talk about short-term results. Make sure we have a dividend that gets paid, make sure you are able to return the profits that you've committed to the business -- even in a downturn. Then the discussion is, "Yes, we understand there's a longer, bigger issue that's happening inside." Then there's a discussion, of course, of, "Yep, the global economy is affecting all businesses, including yours." So there's an understanding of that. But yet there's a sense of urgency that says, "What are you going to do, as a CEO, to make sure that we come out of this much more effectively than any other competitor does?" So, I think it's a healthy tension. I call it a bit of a "schizophrenic" [situation], but it's a healthy tension that creates thinking about the long term as well as making sure you don't forgo the short term..."

Private equity tends to adjust board representation based on the anticipated challenges in the investment (Cornelli & Karakas, 2008). Although three private equity companies hold only approximately 10% Lenovo's total shares, they appointed three directors (more than 33% of the board members) (Ackerly & Larsson, 2005). Similarly, Chairman of MidAmerican Energy David Sokol was seated on BYD's board of directors after Berkshire's investment in the company and encouraged BYD to become a battery supplier for global automakers.[4] Private equity can build the cognitive representation of global mindsets in Chinese firms, improving their awareness, capability, and motivation to react more effectively to threats from foreign entry by changing the director composition and creating discussion tension in the board (Chen, Su, & Tsai, 2007; Meyer & Sinani, 2009; Sun & Yang, 2103) that promotes outward investment and venture.

Proposition 1a *Inward private equity helps to change the composition of invested company's board, and improve invested company's capability in critical decision makings in international investment and venture.*

At the same time, private equity tends to more closely and actively monitor the TMT performance of its invested companies. Previous research finds that the CEO turnover is higher in firms backed by

[4] Gunther M. (2009), Warren Buffett takes charge, Fortune, April 13. http://money.cnn.com/2009/04/13/technology/gunther_electric.fortune/.

private equity funds than public firms during the restructuring process (Cornelli & Karakas, 2008); we find a similar pattern in our seven cases. For example, in February 2009 Amelio was replaced by the Chinese chairman of the board Yang Yuanqing, who had been Lenovo's CEO before Amelio's arrival in 2005. Lenovo's board chose to allow Yang step back into the CEO position during the particularly challenging time of the global financial crisis after Yang moved to the U.S. and gained sufficient international experience with Amelio.

Private equity also provides value-added services such as introducing new compensation plans, hiring new TMT talent, and formulating human resource policies. Private equity is more likely to use the incentive function of ownership as the ex-ante mechanism in alleviating contract hazards (Grossman & Hart, 1986). While Goldman Sachs invested approximately $250 million into funding Chinese auto maker Greely's ambition of expansion, Geely also changed the composition of its TMT. Peter Zhao, a financial controller from BP with many years of international experience, was in charge of the M&A deal with Volvo. Dr Frank Zhao, Geely's Vice President and Chief Technology Officer, spent nine years in Detroit teaching engineering courses at the Wayne State University before joining Chrysler in 1997. He returned to China in 2004 and joined Geely in 2006. He convinced Li to invest at least 8% of Geely's revenue in product development and tripled the number of engineers to 1,200.

In an interview one Chinese firm executive expresses his views on private equity:

"The most important function of private equity investment is to 'organically combine' the carefully selected real talents with varieties of resources… In the past, our board directors usually considered the international markets as very risky. One of our directors used to question: Can we really "swallow" the foreign target? Now with the involvement of directors from international private equity in our board, international strategies become easier to get approved on the board meetings. We add more new member of TMT with international backgrounds, and became more confident and inspired when executing the strategies. It builds the wings for our 'tiger' to fly."

We therefore suggest that:

Proposition 1b *Inward private equity supports TMT member with overseas experience, as well as* *improves management capability in international investments and ventures.*

Configuring Resources

Private equity helps improve the invested firms' incentive mechanisms, as well as maximize their efficiencies and firm values in order to guarantee satisfactory profits. Haarmeyer (2008) called this "capitalism's misunderstood of entrepreneurs and catalysts for value creation." We also find similar value creation catalysts within private-equity-invested Chinese firms, particularly in resource reconfiguration and management internationalization.

First, followed Sirmon, Hitt, and Ireland's (2007) value creation model, we find that private equity helps restructure Chinese firms' resource portfolios. For example, Hony Capital helped Zoomlion to acquire leading Italian concrete machinery company CIFA after injecting large amount of capital. CIFA's strong international brand and innovative technologies become the critical resources in Zoomlion's internationalization. We also find a similar resource acquisition role in the case of TPG-GA/Lenovo acquiring IBM's PC division, the Goldman Sachs/Geely case in acquiring Volvo Cars, and the Bain/Huawei case in the 3Com deal.

Second, we find that private equity tends to re-bundle resources for Chinese firms' outward ventures. Scholars find that private equity's social status advantage is transferable from one market to another as a signal of quality based on the foreign market entries of 1,010 U.S. venture capital firms (Guler & Guillen, 2010a). Private equity's reputation can endorse Chinese firms in international ventures, legitimize their position in new markets (Yamakawa, Peng, & Deeds, 2008), and increase foreign partner alliance opportunities in order to overcome the "liability of foreignness" (Johanson & Vahlne, 2009). In our case studies we also find that Chinese firms' associations with high-prestige private equity have been shown to enhance resource flows into their new overseas ventures. For example, Softbank helped Alibaba.com penetrate into the unfriendly Japanese e-commerce market. While Geely provided the first offer to Ford Motor on buying the Volvo in 2008, Ford's manager suspected Geely's capability of closing the deal and integrating with the Swedish carmaker. After Goldman Sachs invested approximately $250 million in September 2009 Geely soon reached an agreement with Ford to buy Volvo for $1.8 billion in March 2010. These cases show that the inward-outward linkage generated by private equity could improve Chinese firms' reputations, as well as influence and enhance Chinese firms' capabilities in making strategic alliances and M&As in the business ecological system. In an interview one partner from the private equity that invested in Zoomlion told us:

"When we helped Zoomlion to acquire the Italian CIFA, we were aware that although we were familiar with China and with the general rules of international transactions, we knew little about the local customs, cultures, and the government of Milan. Through our investors' local network, we found a reputable investment firm the Italian Mandarin Capital Partner and Goldman Sachs. The capital alliance made us four parties of investors closely intertwined with different resources and knowledge to close the deal."

Third, we find that private equity can help Chinese firms to mobilize, coordinate, and deploy resources. International ventures' successes rely on the venturing firm's control and leverage of unique resources in exploiting new opportunities (Autio, 2005). In our case studies Berkshire Hathaway helped BYD open its first office in California[5]; BYD was given nearly $1 million from the Los Angeles municipality and free product placement at the Los Angeles International Airport. Berkshire Hathaway also showed BYD's electric car in its 2009 annual shareholder meeting, and owned an electricity grid in the American Midwest. The MidAmerican Energy subsidiary of Berkshire Hathaway could build the charging stations while BYD could manufacture the electric cars. Under

[5] Willon, P. (2010) California (BY)Dreaming? Los Angeles Times. April 29. http://latimesblogs.latimes.com/lanow/2010/04/more-details-emerge-on-chinese-car-companys-arrival-in-los-angeles.html.

Buffet's endowment Daimler AG has operated a joint venture company with BYD in Shenzhen since 2011 under the name Daimler New Technology Company. Their focus on electric vehicle development and up-market sedans serve as a manifestation of how the Chinese firm could utilize private equity investors' unique external resources (including reputation and social network) to expand operations in several dimensions.

> ***Proposition 2*** *Inward private equity helps reconfigure the invested company's resources so that the invested company could leverage its capability to exploit new opportunities in overseas markets that create and capture greater value.*

Changing Competitive Dynamics

Following Porter's (1980) five-force framework, the threat of entrants could change the industry competitiveness. Emerging Chinese MNEs backed by inward private equity could dramatically alter the global competitive landscape as potential new entrants. For example, before acquiring IBM's PC division Lenovo was a local player that only defended its domestic market share against HP and Dell. After the acquisition Lenovo could compete head-to-head with HP and Dell in their main battlefield – the U.S. market. At the same time Lenovo could improve its economies of scale by creating cost synergies of $150 to 200 million per year on procurement savings alone, such as acquiring better prices on Intel chips (Ackerly & Larsson, 2005).

Chinese firms with inward private equity will accordingly alter their industries' competitive dynamics as actions and responses undertaken by competing firms. Drawing on the "awareness-motivation-capability" perspective (Chen *et al.*, 2007), how the incumbent MNEs (particularly DE MNEs) perceive competitive tensions from the altering global competitive landscape is influenced by the independent and interactive effects of three factors: relative scale, Chinese firms' attack intensity, and capability to contest. For example, after Huawei and Bain Capital withdrew their application for the $2.2 billion 3Com acquisition bid from CFIUS in 2008 HP estimated the value of 3Com as $2.7 billion. HP put special weight on the H3C, the former joint venture between 3Com and Huawei in the acquisition, and believed the H3C deal would significantly strengthen the company's position in China as one of the world's fastest-growing markets. HP also believed that this combination could add a large and talented Chinese research and development team that would drive the acceleration of innovations toward HP's networking solutions.[6] Both Huawei's attack and HP's counterattack would affect the industry structure among Cisco, EMC, NetApp, and the other networking infrastructure companies. Similarly, Zoomlion became the world's largest concrete machinery manufacturer following the acquisition of CIFA in 2008 and changed the competitive dynamics.

Proposition 3 *Inward private equity helps reframe the industry structure and alter competitive dynamics.*

The above-mentioned aspects are the possible value-added changes that private equity could bring to Chinese firms via their "morphing," primarily by restructuring and reconfiguring firms' capital, board, and resource endowment structures as illustrated in Figure 1. After morphing these young firms evolve from the cocoon to become charming butterflies in the international arena: the value creation by inward private equity is then carried out via invested firms' outward international venture activities as discussed below. We argue that these value creations are primarily manifested in Chinese ventures' internationalization speeds, outward location choices, and market entry strategies.

Internationalization Speed

[6] HP New Release, Nov. 11, 2009. http://www.hp.com/hpinfo/newsroom/press/2009/091111xa.html.

Previous international entrepreneurship literature focuses on "born-global" firms (firms that internationalize virtually from inception) (Oviatt & McDougall, 1994), but largely ignores revitalized firms in internationalization. Early pursuit of international opportunity induces greater entrepreneurial behavior and confers a growth advantage, while it is difficult for mature firms to change their organizational routines in seeking international growth (Autio *et al.*, 2000). However, the inward-outward linkage is likely to shape the strategic choices of both boards and TMTs (Proposition 1a and 1b) since private equity acts as the new owner and stimulates a firm's entrepreneurial activities. Chinese firms backed by private equity are more likely to initiate changes from old organizational templates (Johnson, Smith, & Codling, 2000) and taken-for-granted routines (Newman, 2000) before becoming international even at a relatively immature stage. For example, in an interview, one executive from NVC Lighting told us:

"With the help from our investors, we can move fast in overseas markets. After acquired a distributor in the UK, we strongly promoted the sales of NVC brand products in the mainstream outlets in the UK, and copy these successful experiences in North American or European markets. With PE's supported money at hand, we also extended our market in the emerging markets in India, Brazil, the Middle East and Africa, and appoint a number of its own experienced executives to develop these markets so as to control the sales channels in the local market."

Similarly, Lenovo searched for private equity partners to finance its acquisition of IBM's PC division who could "…offer expertise and experience that are expected to be valuable to the Company" in its global expansion.[7] Although the company began to export its vehicles to foreign countries in 2006, in BYD's case internationalization only truly acquired speed only after its injection of new capital by Berkshire Hathaway. It not only exported its cars to Africa, South America, and the Middle East in 2009, but also planned to enter the European and Israeli markets and built a beachhead

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[7] Lenovo, December 31, 2004, *Circular; Very Substantial Acquisition Relating to the Personal Computer Business of International Business Machines Corporation,* Hong Kong Stock Exchange, p. 149, p. 2.

in the United States. These cases indicate that although organizational learning in internationalization is a gradual process under a specific developmental order, the mindset change among board directors and the TMT could help a firm leapfrog from a low level of international commitments such as exports to a high level of international commitments such as M&As based on new opportunity captures (Bingham & Eisenhardt, 2011; Nadkarni & Perez, 2007).

Therefore:

> ***Proposition 4a*** *Internationalized private equity will speed up the invested company's internationalization process.*

Overseas Venturing Location: Shortening Institutional Distance

The Uppsala process model proposes that psychological distance such as differences in language, education, business practice, culture, and religion (Johanson & Vahlne, 1977), as well as the liability of foreignness and "outsidership" to the relevant network (Johanson & Vahlne, 2009) will burden firms seeking internationalization. Following this model MNEs are likely to increase their internationalization by gradually accumulating, integrating, and learning knowledge of foreign markets. Bartlett and Ghoshal (2000) suggest that EE MNEs first enter the smaller markets where EE MNEs' businesses are not yet well established. Only after EE MNEs accumulate sufficient foreign market knowledge and overcome the barriers of cultural, technological, economic, and institutional distance will EE MNEs can enter developed countries (Sun, 2009). However, the inward-outward linkage changes this location entry sequence. Since inward private equity investors usually have a high reputation and greater experience in developed countries (Guler & Guillen, 2010a), they can endorse Chinese firms into entering these countries quickly; their local business community network and political circles can mitigate high institutional distances that might burden Chinese firms with limited knowledge. In our case studies all seven companies treat developed counties as their main target markets. In an interview one executive described his experience in cross-border M&As:

"After acquiring this established European company, Some employees were skeptical, some wanted to wait-and-see, some feared, some were frustrated, and some resisted. They suspected us as an acquirer from an emerging economy. Later, with PEs' M&A experiences, we recognized problem and set aside the specific post-acquisition measures, and highlighted the shared future vision in our meetings. Under the guidance of PEs, we implemented equity incentives to key task teams, shared fruits as well as responsibilities of development. By doing so, the cultural gap between us gradually disappeared…."

In another interview one executive described assistance from local private equity in a developed economy:

"One of the shareholders of our investor (the Mandarin Fund) was Italy's largest bank, Intesa Sanpolo. Its Italian top management team understood China very well, which helped to build a bridge for the fusion between the two parties. Therefore, we could effectively alleviate our cultural conflicts during the acquisition of the Italian company…With the help of such shareholders, we could shift the focus of our global strategy from developing economies to the (high-end) developed countries."

At the same time, from the seller side the DE targeting firm (e.g., IBM's PC division, CIFA, or Volvo) or alliance partner (e.g., Daimler) could re-locate supply chain resources and expand into previously inaccessible market segments with assistance from private equity (Knoerich, 2010). Such asymmetric acquisitions or alliances between DE target firms and Chinese acquiring firms create additional location synergies via opportunity seeking and capability transformation (Madhok & Keyhani, 2012; Sun and Yang, 2013). Therefore:

Proposition 4b *Inward private equity will help the invested company locate additional outward ventures in advanced economies.*

Market Entry Strategy

Firms typically overcome the "liabilities of foreignness" by following the sequence of entry modes from exports to minority joint ventures (JVs), then majority JVs or M&As. They accordingly learn from early entries and adopt their subsequent entry modes (Chang & Rosenzweig, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009). However, Chinese MNEs endowed by private equity can skip several early-stage entry modes and become active in more complex and challenging transactions such as cross-border M&As. How does this inward-outward linkage help change the rules of cross-border M&As?

First, private equity can bring credibility to the negotiation table, helping Chinese firm reduce cash payments in M&A deals. For example, in the original deal arrangement without private equity Lenovo would have had to pay $600 million in equity and $650 million in cash, resulting in 18.9% ownership in the new IBM entity. After private equity investors became involved TPG and GA paid $350 million in cash to IBM and exchanged convertible preferred equity (equal to 10.24% of Lenovo); Lenovo only paid IBM approximately $450 million in cash and common shares valued at $450 million (8.8% of Lenovo) (Ackerly & Larsson, 2005).

Second, private equity can deliver crucial expertise in mitigating the financial, operational and cultural risks involved in a complex M&A deal (Cornelli & Karakas, 2008). Chinese firms have limited experience in such large-scale cross-border M&As. However, in Lenovo' deal arrangement private equity helped separate IBM's PC division from its parent during the construction of this intricate relationship. Lenovo signed a series of agreements in order to meet the private equity requirements including a Transitional Services Agreement, Strategic Financing and Asset Disposition Services Agreement, and IGS Services Agreement, as well as the Marketing Support Agreement and Internal Use Purchase Agreement (Ackerly & Larsson, 2005). Ackerly and Larsson (2005: 25) suggest that: "(as) a result of these collective efforts, Lenovo's acquisition of IBM's PC division may come to be viewed as a watershed that not only forever changed Western views about China's economic ambitions and but also opened an era of significant cross border partnerships that will fuel the continued economic integration of China and the West." In the similar Geely case, it relied on Goldman Sachs' M&A expertise in order to close the deal because Volvo was fully integrated with Ford's global platform.

Third, private equity can help Chinese firms mitigate institutional barriers in market entry. The "institutional barrier" refers to entry restrictions from institutions such as legal restrictions on ownership (Shimizu et al., 2004). Foreign governments sometimes adopt ownership restrictions in order to protect domestic owners from outsiders. Previous research finds that firms entering markets with high legal restrictions or high institutional distance tend to use joint ventures as their preferred entry mode (Sun, 2009). However, private equity can leverage its lobbying and political influence to help new Chinese entrants. In our case studies Huawei allied with Bain Capital to bid for 3Com, because Huawei estimated high institutional barriers for the U.S. market. Although this deal failed because could not pass CFIUS's investigation, another successful case (Lenovo/IBM PC) still shows that inward-outward linkage increases Chinese MNEs' capacities to overcome institutional barriers. One senior private equity partner told us:

"We had experiences of hundreds of complex transactions worldwide, and it is also very important to promote the transactions to be approved. Especially in the United States, such massive selling of computers by important corporations and governmental agencies when acquired by Chinese companies would cause uproar. We are very familiar with the US rules of game, thus could help invested Chinese companies resolve these difficulties."

Forth, the inward-outward linkage increases both the attraction of M&A buyers and the likelihood of post-M&A integration success. From M&A sellers' perspectives they are also more likely to be acquired by attractive buyers who offer synergistic combination potential and organizational rapport with long-term interests (Graebner & Eisenhardt, 2004). Private equity can win additional points in such “acquisition as courtship,” indicate joint decision making with some common seller goals, and treat post-M&A corporate governance as a syndicate (Gurung & Lerner, 2008). From the cases of Geely’s acquisition of Volvo, Zoomlion’s acquisition of CIFA, and Lenovo’s acquisition of IBM PC division, we also find that Chinese MNEs prefer to use “friendly” M&As in order to achieve the goal of learning target partner’s technologies. This avoids overturning management structures and ensures better resource integration (Kumar, 2009; Zollo & Meier, 2008). One senior Zoomlion executive told us during the interview:

“While we decided to acquire CIFA, TATA Group, Schwing, and Sany Group were all interested in participating in the bid, but in the end we were selected by CIFA though our bid was relatively low. This has to do with the powerful PE alliance (syndication) backing us. Under the guidance of our PE investors with rich acquisition experience, in the first phase of negotiations, we proposed the strategic visions of “keeping CIFA’s TMT and workforce stable, allowing CIFA to operate independently under a dual-brand strategy, sharing technology and market resources globally”, which obtained a high degree of recognition of CIFA’s original shareholders and TMT, and ultimately reached the deal.”

Inward private equity and Chinese outward ventures accordingly share similar interests; Chinese MNEs can smoothly integrate their comparative ownership advantages (Sun *et al.*, 2012) with sellers during the post-M&A transition.

> ***Proposition 4c*** *Inward private equity helps improve the invested company’s capability in handling complex entry modes, particularly in cross-border M&As.*

DISCUSSION

Contributions

This study aims to promote interdisciplinary dialogues between the theories of international entrepreneurship, MNEs, the resource-based view, and organization form based on the “inward-outward linkage” perspective. By analyzing MNEs using “triangulation among the primary/second sources <=> analytical generalization <=> a broader metaphor /theory” we develop a new framework for the morphing depicted in Figure 1. We summarize our findings in Table 2 which offers significant support for our new framework.

[Insert Table 2 about here]

We attempt to make the following contributions. First, we find a new driving force behind Chinese firms' outward investments and ventures, as well as extend the international entrepreneurship theory into revitalized firms – Chinese emerging MNEs backed by globalized private equity. Child and Rodrigues (2005: 381) suggest that the Chinese internationalization case offers "an opportunity to extend present theorizing in four primary areas concerning the latecomer perspective and catch-up strategies, institutional analysis with reference to the role of government, the relations between entrepreneurs and institutions, and the liability of foreignness." Despite the ascending roles of EE MNEs in global competition, the viability of these latecomers is not yet well understood (Madhok & Keyhani, 2012). Given their essential neglect of the organizational evolution perspective, the dominant MNE theories such as the OLI paradigm and internalization theory fall short of delivering a satisfactory discourse as to why some EE MNEs have been able to accelerate their international expansion (including foraying into DEs) without obvious ownership-specific advantages, as well as how these late-coming challengers could compete with the incumbent global players even in DEs (Child and Rodriguez, 2005; Mathews, 2006). Our inward-outward perspective integrates different streams of related literature and connects globalization into a wider business system with a micro process of experimentation variety within and across individual firms – the so-called "morphing" process.

Second, we provide a novel perspective that helps the international business field tackle a new species of MNEs. Classifying inward-outward linked venture of emerging MNEs into "zoologies" also contributes to the literature of organization theory. Traditional organization theory suggests that a change of organizational form occurs when the organization reconfigures it resources, capabilities, and structures in order to deal with rapidly changing environments (Rindova & Kotha, 2001). Our inward-outward perspective argues that ownership changes, particularly those induced by investment from prestigious globalized private equity, will revitalize a firm's outward venturing activities even in dynamic environments. Chittoor et al. (2009) found a similar linkage between the internationalization of Indian pharmaceutical firms and international technological and financial resources. The emergence of this new species of EE MNEs is also important in understanding the interrelationships between MNE activities and public policies (for example, in Huawei's case on bidding for 3Com).

Third, we extend the resource-based view in order to incorporate the resource linkage of (inward-outward) interconnected firms. The traditional resource-based view suggests that most valuable resources gained from internal organizations are nontransferable (Barney, 1991). Mathews (2006) argued that EE MNEs as latecomers can accelerate internationalization by innovating strategy and organization via inter-firm linkage, leverage, and leaning. Extending this view, we suggest that inward private equity does not follow the internalization pattern of traditional MNEs (Dunning, 1980), but instead orchestrates resources such as reputation and credits into Chinese emerging MNEs. How these reputation effects are transferred and mobilized among inter-organizations, as well as how intangible capital helps latecomers gain legitimacy in foreign market are concepts worth further research examination.

Managerial Implications

Following our inward-outward linkage perspective, EE MNEs can improve their internationalization strategy designs by allying with inward private equity and leveraging private equity's resources in the DE market. They can then accelerate the speed of internationalization and boldly engage in complex cross-border M&As as a primary mode of market entry.

DE MNEs as incumbents have a better understanding of the changing competitive dynamics under this new species of global market competitors. In order to survive they must know how these emerging MNEs alter the global competitive landscape, as well as how these new players drive industry growth and reconstruct the value chain. These incumbents must also be aware of new threats, reassess their industry's vulnerabilities, make new alliance partners, and adapt to new market structures when emerging new entrants change inter-firm rivalries. For example, DE MNEs such as Ericsson, Siemens, and Cisco must renew their competitive strategies to response Huawei's threats (Sun, 2009).

Future Research Opportunities

This study also highlights some future research opportunities. First, is our inward-outward linkage perspective applicable to MNEs from other emerging economies? Private equity investors are rushing in as emerging economies become the new engines of world economic growth.[8] For example, total private equity investment in India increased 1,773% between 2004 and 2007 from $1.1 billion to $19.5 billion.[9] The issue of generalizability – whether or not our perspective is context-specific, i.e., only reflects the particular institutional environment of MNEs from a single country (China) – is accordingly worth examining. A similar trajectory could be found in Indian companies that benefit from foreign partnerships in internationalization (Bhaumik, Driffield, & Pal, 2009; Chittoor, Sarkar,

[8] Although emerging economies now have greater domestic private equity, in this article "private equity" refers to international private equity (including venture capital), and an "entrepreneur" refers to local entrepreneurs.
[9] Dolbeck, A. (2008) Private Equity in the Global Arena, Weekly Corporate Growth Report, June 2. and Gurung & Lerner (2008).

Ray, & Aulakh, 2009; Elango & Pattnaik, 2007). For example, Between 1999 and 2001 Warburg Pincus invested nearly $300 million in Bharti Tele-Ventures, a relatively small Indian telecommunication company (Gurung & Lerner, 2008). Warburg Pincus then supported its growth from a mid-sized local player into the fifth-largest mobile operator in the world, operating in three countries in the Indian subcontinent and 16 countries in Africa. Its outward venturing includes the bold acquisition of Zain Africa for $10.7 billion in 2010. Although Gu and Lu (2010) illustrated the inward-outward linkage with macro-spillover and competition effect explanations using cross-country data, we still do not know whether or not EE MNEs operating in different countries share similar patterns. Determining how the formal or informal institutions in different countries affect the "morphing" and "linkage" processes can offer opportunities for future improvement (Peng, Sun, Pinkham, & Chen, 2009).

The second future research opportunity comes from the inward-outward linkage in marketing and innovation that have not been explored in this study. We found preliminary evidence that 15 Indian business-process-outsourcing companies received significant private equity investments before their intensive engagement in international marketing and sales, including Aegis, Genpact, Infosys, and Wipro (Bubna, 2010). If the marketing strategies of this inward-outward linkage can obtain further support in this interlinked global economy then it will pave a new method for EE MNEs that lack substantial prior resource bases and technologies to catch up (Mathews, 2006).

The third interesting but unanswered question in this paper is the relationship between firm ownership and the inward-outward linkage. All seven firms in our case studies are private-owned firms rather than state-owned enterprises (SOEs). Why is inward private equity is more likely to cling to privately-owned firms than SOEs in outward venturing, even when Chinese SOEs could acquire additional government support (Sun et al., 2012)? A possible answer comes from Managing Director of Warburg Pincus Dalip Pathak. He said in Indian Bharti Tele-Ventures that, “[a]t Warburg Pincus, we don’t invest in a company unless the entrepreneur has a predisposition to openly work with us” (Fang & Leeds, 2008). Further research on why SOEs are difficult to apply the inward-outward linkage will strengthen our understanding of this important phenomenon.

CONCLUSION

Our inward-outward linkage perspective shows a new pattern of global inter-firm connections: the partnership between DE private equity and EE MNEs. This partnership cultivates the morphing process of EE MNE’s internationalization. This equity linkage with private equity could help EE MNEs build global mindsets in their board directors and TMT, reconfigure resources, reframe industry structures, and alter competitive dynamics. These EE MNE organizational changes would accelerate internationalization speeds, facilitate the location of additional outward ventures in developed economies, and choose more complex entry modes - effectively changing the competitive landscape of globalization.

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Figure 1 The Inward-outward Linkage Perspective

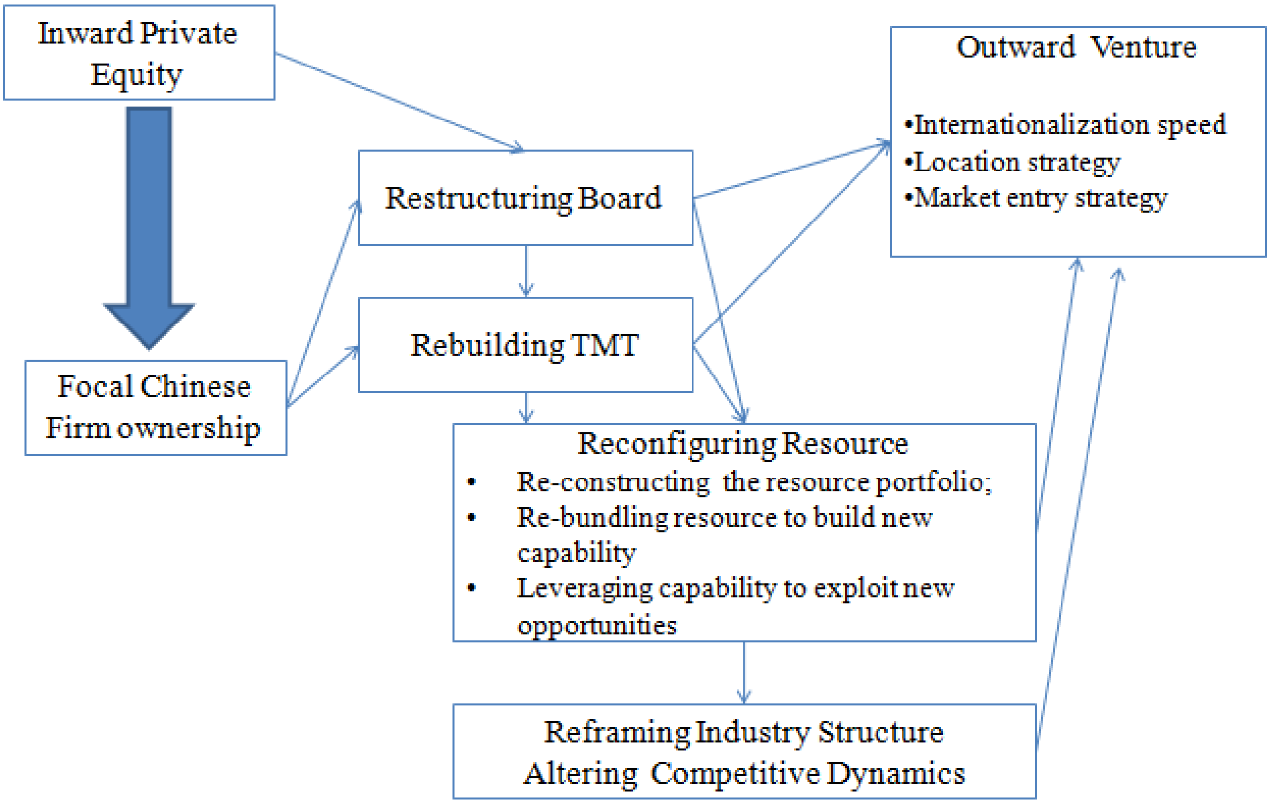

Table 1 Description of the Seven Cases

Invested Firms	Founding Year	Private Equity companies	PE Investing Time	Ownership Change	Overseas Investment Time	Overseas Ventures Performance
Lenovo Group	1988	Texas Pacific Group (TPG), General Atlantic (GA), Newbridge	2005	TPG (including Newbridge) and GA obtained 12.4% of Lenovo shares.	May 2005	Lenovo has enhanced its global reputation presence after acquiring IBM's PC business, but it also encountered severe integration problems.
Zoomlion	1992	Hony Capital, Goldman Sachs, Mandarin Capital Partners	2003, 2006, etc.	Hony Capital obtained 26% of Zoomlion shares.	Sep 2008	Zoomlion combined CIFA's strong international brand and innovative technology with its own domestic market position to expand globally.
Geely Auto	1986	Goldman Sachs	2009	Goldman Sachs obtained 15% of Geely shares.	Mar 2010	With Goldman's investment, Geely's acquisition of Volvo has just been approved in July 2010. This allows Geely to enter the high-end brand market.
Alibaba.com	1999	Softbank, Goldman Sachs, Fidelity, etc.	2000, 2004, etc.	Softbank holds 33% of Alibaba shares.	2008 (Japan), 2009 (U.S.), etc.	Alibaba has kept on growing rapidly with the new plan of establishing a Japan-China e-commerce partnership with Softbank.
Huawei Technologies	1988	Bain Capital	2007	Bain Capital obtained 83.5% of the acquired 3Com company shares while Huawei obtained the remaining 16.5% shares.	Sep 2007	The 3Com deal was rejected by CFIUS due to political concerns.
NVC Lighting	1998	SAIF Partners, CITIC Securities, Goldman Sachs, etc.	2006	SAIF 23.41% (previously 30.73%); Goldman Sachs 7.15% (previously 9.39%) after IPO offering.	2007 onwards.	With the PE investment NVC is expanding rapidly into the global markets with presence in the SEA, UK, U.S., etc.
BYD	1995	Berkshire Hathaway	2008	Berkshire Hathaway obtained 10% of BYD shares.	2009 onwards	BYD's exports and establishment of overseas subsidiaries have been greatly increased with Buffett's investment.

Table 2 Morphing Process of the Seven Companies

Company	Lenovo Group	Zoomlion	Geely Auto	Alibaba.com	Huawei Tech.	NVC Lighting	BYD
Building Global Mindset and Leadership-Restructuring Board (P1a)	Strategic investors were assigned on Lenovo's board who achieved consensus with Lenovo's TMT in compressing costs, but disagreed with IBM PC's "high input-output" policy.	Established an independent "expert" board (experts in finance, management, HR, and strategy) The professional board committee majorities were also independent and non-executive directors	After the acquisition of Volvo, Li Shufu was appointed as the chairman and Hans Olof Olson (former CEO of Volvo cars) as the vice chairman, among other members. The board also had three representatives from Volvo designated by Volvo's union.	Yahoo held 40% stakes in Alibaba and two seats on Alibaba's board of directors. Yahoo's former CEO Jerry Yang and CFO Tim Morse became Alibaba's directors in 2012.	The adaption of ESOP; the board of directors consisting of 13 members were all elected by employee representatives.	Den Daas served as the Chairman, CEO, and COO of Philips Lighting North America from 2006 to 2009. Non-managing directors from Goldman Sachs and SAIF later joined the board.	David Sokol was seated on BYD's board as non-executive director and member of the strategy committee.
Rebuilding TMT (P1b)	Lenovo absorbed several members of IBM's TMT and brought in four outsiders into Lenovo's TMT. In 2009 Yang Yuanqing stepped back as chairman after obtaining international experience.	Former Italian Prime Minister Prodi spoke highly of the acquisition of CIFA, praising Zoomlion's TMT as no longer the "bystanders" of the world economy but instead grown to become major participants and leaders.	Former president of Huatai Auto TONG Zhiyuan was appointed by Geely as COO of the "China Volvo Car Project" in December 2009. The former president of the FPT Fiat China SHEN Hui was also appointed in charge of Geely's European affairs.	Prof. Zeng Ming served as a strategy consultant for Alibaba, joined Alibaba Group in August 2006 as the CSO, and became president of Yahoo China in November 2006.	Applied the approach of CEO rotation within the TMT to enable the company to quickly adapt to changes in the environment. Implemented collective decision making.	ZHANG Qingyu was placed on the board and responsible for international sales and marketing. Zhou Xiang was placed as the general manager for the R&D center in Shanghai.	Two senior executives Yang Longzhong and Wang Nianqiang obtained Master's degrees (MBAs) from China Europe International Business School.
Configuring Resources (P2)	Strong complementarities between Lenovo and IBM PC in geography and product homogeneity.	Integrating CIFA's high-end technology and Zoomlion's manufacturing capacity. Collaboration with PE in the acquisition led to effective risk-sharing.	Information sharing and collaboration between Geely and Volvo on product procurement, R&D, sales and marketing, personnel training, etc.	Establishment of a JV between Alibaba and Softbank to allow Alibaba to become officially involved in the Japanese market.	Joint R&D labs with Texas Instruments, Motorola, IBM, Intel, etc; joint venture with 3com and Symantec; alliance with Vodafone.	NVC won several bidding orders for lighting projects during the 2008 Beijing Olympics, and obtained sponsorship of the London Olympics.	BYD strengthens R&D, manufacturing and sales of solar cells, promoting the energy storage station business.
Changing Competitive Dynamics (P3)	In 2012 Lenovo has surpassed U.S. based HP as the world's largest PC maker in market shares.	Zoomlion became the world's largest concrete machinery manufacturer following the acquisition of CIFA in 2008.	In 2011 Volvo achieved an annual increase of 20.3% in sales worldwide, and sales in China increased by 54.4% to 47,140 cars.	Alibaba became the world's largest wholesale procurement platform, providing opportunities market for millions of small businesses.	After several landmark achievements since 2009Huawei became No.2 in global telecom equipment market in 2012.	NVC became the industry leader in China and China's first SGS-accredited corporate laboratory.	BYD competes with Foxconn and wins additional orders from Apple in smart phones and related high-end consumer electronics.
Internationalization Speed (P4a)	After the PE investment Lenovo integrated the acquired IBM PC division and built an effective global supply chain.	Acquired CIFA in a cash offer in 2008 and became the world's largest concrete machinery manufacturer.	Except the Manganese deal, Acquired Australian DIS transmission plant (world's second largest) in 2009. Acquired Volvo car business in 2010 for $1.8 billion.	Acquired US B2C company Vendio. Customers on the Alibaba AliExpress platform are worldwide (18% from the US).	Although the 3Com (2008) and 3leaf (2011) deals failed, Huawei achieved 75% sales come from oversea markets in 2010.	Overseas expansion since 2006, and achieved rapid growth of overseas sales by the second half of 2009.	Exporting cars to Africa, South America. and the Middle East in 2009. and built a beachhead in the United States.
Oversea Venture Location (P4b)	R&D centers in Yokohama, Japan; Beijing, Shanghai and Shenzhen, China; and Morrisville, U.S. Manufacturing in Greensboro, North Carolina and Monterrey, Mexico to India, China and	Entered UK, Italy and other European markets; established JV plant in India in 2012 on tower crane manufacturing. Shifted the focus to Asian, African, and Latin American regional markets and accelerated the buildup of overseas manufacturing bases in	Sweden. Australia, and United Kingdom.	Strategic partnerships or channel distributors in India, Japan, Malaysia, Indonesia, Korea, Vietnam, Turkey; collaboration with Iudatrade in the Brazil market.	R&D centers in Dallas, Texas and the Silicon Valley, California (U.S.), Bangalore (India), Moscow (Russia), and Stockholm (Sweden), Over 100 foreign subsidiaries.	Established operating agencies in more than 30 countries worldwide. Entered UK mainstream sales channel through acquisition and integration, and copied the UK experience in the US and other European	BYD actively explored the opportunity of commencing trial operation of electric vehicles in the U.S. and Israel markets.

	Brazil.	emerging markets (India, Brazil, Russia, etc.)				markets.	
Market Entry Strategy (P4c)	Acquiring IBM’s personal computer business in 2005; Acquired Medion (German) and NEC PC business in 2011.	M&As in the UK and Italy; joint venture in India. Greenfield projects in Russia, Turkey, Brazil, India, Indonesia and other developing countries and emerging markets.	M&As and joint ventures.	Contract-based distribution cooperation agreement with local partners.	Withdrawal from the U.S. market in 2003 due to Cisco’s lawsuit on IP rights infringement; failed bid for Sprint 4G; Australia banned H’s bid on the scheme to build a national broadband network.	Expansion of overseas sales channels, particularly in Brazil and Qatar; brand recognition in existing markets (Australia, South Africa, etc.); opening of outlets and authorized counters in Middle East, Southeast Asia, India, etc.	Joint venture with Daimler to research and develop new energy vehicles in 2011 and launched new model in 2012.