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China is assuming an increasingly prominent position in the world economy as the investment begins to flow from China to the world. Compared to the 'West goes to China', the institutional environment, the cultural roots and the corresponding managerial behaviours are quite distinct. These distinct characteristics may challenge the conventional wisdom in the dominant mainstream theories of international business and multinational strategy. Based on both quantitative study, multi-case studies and over 50 interviews with Chinese and Western professionals, this thesis reflected the ambivalence of the government and Chinese companies in outward M&As. While the Chinese government shows a You Wei attitude towards outward M&As, You Wei acts on outward M&As in an ambivalent manner. On the one hand, the You Wei government positively facilitates outward technology exploration as an essential part of the technology development in China's high-speed rail industry; on the other hand, the You Wei government distorts the capital allocation for outward M&As between SOEs and POEs, and compensates for the loss by SOEs through low-cost debt financing. Similarly, Chinese companies behave ambivalently towards outward M&As. On the one hand, Chinese companies display a You Wei strategy, proactively coping with the various domestic stakeholders in the M&A legitimization process; on the other hand, they manifest a Wu Wei action, effortlessly dealing with post-acquisition integration in developed economies. Overall, the ambivalence of outward Chinese M&As is characterized by a typical Chinese "both/and" and interdependent opposites' managerial paradigm.

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YOU WEI AND WU WEI:

Ambivalence of Chinese Outbound Mergers and Acquisitions

ACADEMISCH PROEFSCHRIFT

ter verkrijging van de graad van doctor

aan de Universiteit van Amsterdam,

op gezag van de Rector Magnificus prof. dr. D.C. van den Boom,

ten overstaan van een door het college voor promoties ingestelde commissie,

in het openbaar te verdedigen in de Agnietenkapel

op dinsdag 19 januari 2016, te 12.00 uur

door

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Faculteit der Economie en Bedrijfskunde

Contents

CHAPTER 1

Introduction

1.1 From “the West Goes to China” to “China Goes to the West”

For decades, direct investment flows have gone from developed economies (DEs) towards China. However, as China has now begun to assume an increasingly prominent position in the world economy (Wright, Filatotchev, Hoskisson, & Peng, 2005), the investment has started to flow outwards from China to the rest of the world. Compared to “the West goes to China”, the (1) starting point, (2) internationalization paths and internationalization approach, and (3) strategic actions of “China goes to the West” are quite distinct (Madhok & Keyhani, 2012). First, neither China’s legal nor financial system is well developed compared to those of the DEs (Nolan, 2012), as Chinese multinational enterprises (CMNEs) are usually less developed than established developed economy multinational enterprises (DMNEs) are, particularly in terms of their “soft strength”, defined as an implicit influence and attractiveness through corporate culture, value, governance and image (Ramamurti, 2012). Second, CMNEs have witnessed a surprisingly rapid pace of internationalization as well as a deep interest in using outward mergers and acquisitions (M&As) as a major approach to enter DEs in the early stages of their internationalization (UNCTAD, 2006). Some figures and evidence accentuate this point: the volume of outward M&A deals by China was quite sporadic before 2002. The deal value was minor, with no deals occurring at all in certain years. The targets were in monopoly industries such as oil and mining in America, Canada, Hong Kong and other neighbouring countries. Since 2002, both the volume and value have risen significantly. Between 2004 and 2013, China increased its outward M&A deal value tenfold, from only 3 to 33.79 billion US dollars (Ministry of Commerce of China, 2014). CMNEs have gradually manifested their interest in knowledge-intensive DE sectors, such as machinery, biotechnology and information technology (Zheng, Wei, Zhang, & Yang, 2014). Well-known deals include Lenovo acquiring IBM PC Division and Geely's acquisition of Volvo. Third, despite the boldness and aggressiveness of using outward M&As in DEs, CMNEs have surprised DMNEs by their apparent effortlessness in dealing with post-acquisition integration (Cogman & Tan, 2010).

These distinct characteristics may challenge the dominant mainstream theories of international business and multinational strategy. When considering multinational enterprises (MNEs) as the starting point, the mainstream theories exclusively reflect the experience of DMNEs with their established internal strength. Take the eclectic paradigm, which is also called the ownership-location-internalization (OLI) model (Dunning, 1988), for example; the ownership-specific advantage originates from exploiting the proprietary assets, such as proprietary technologies, to compete with domestic competitors in host countries; the location-specific advantage derives from being able to integrate activities across sectors of the world with very different factor costs and resource costs; the internalization-specific advantage comes from building economies of scale and scope by internalizing activities across the world that otherwise would be dispersed between numerous firms.

Concerning the internationalization path, the Uppsala model indicates that there is an incremental learning process during which MNEs gradually increase their knowledge of and commitment to foreign markets (Johanson & Vahlne, 1977, 2009). The model builds on behavioural theories, taking psychic distance and uncertainty avoidance into account, assuming that inexperienced firms in the very early stages of internationalization will start with markets that have the shortest psychic distance from them, defined as the sum of factors that create barriers to understanding the foreign market, such as language, culture and institutions. As their experience grows, they will expand into more distant markets (Johanson & Vahlne, 1990).

Concerning post-acquisition integration, DMNEs usually consider synergy as the key determinant for the approach choices and hold the acquirers' initiated top-down planned integration in high regard (Haspeslagh & Jemison, 1991). Given the synergy potential, DMNEs are likely to integrate structurally at a rapid speed with a "bold stroke" to realize the "economies of sameness".

Clearly, the conventional theories such as the OLI model, the Uppsala model or structural integration theory do not so easily apply to this unconventional phenomenon of the counter-flow of investments. To be specific, the deficiency in ownership-specific advantages, in terms of corporate cultural attractiveness and international managerial know-how in particular, significantly challenge "the possession of competitive advantages before internationalization" assumption in the OLI model. The Uppsala model is also greatly questioned due to the rapid growth of CMNEs in DEs at the early stage of their internationalization process. Last but not least, the light-touch integration strategy of CMNEs aiming at long-term strategic synergies calls into question structural integration with the aim of short-term economic and financial synergies.

Logically then, a departure from the conventional wisdom is needed.

1.2 Contextual Differences between China and the West

China is a very different context for organizations and individuals in terms of institutions, cultures and its roots, and the corresponding contemporary management practices (Barkema, Chen, George, Luo, & Tsui, 2015). These contextual differences are also manifested in the internationalization of Chinese and Western companies.

1.2.1 Institutions

Overall, China has strong state control. The motives of China's outbound M&As from the institutional perspective include a manifestation of the state acquiring tangible natural resources, as well as it pursuing intangible benefits, such as national pride and national competitiveness (Schüller & Turner, 2005). In favour of this, the Chinese government has established specific directions on the categories of industries which are preferable for outbound M&As, alongside a range of supportive policies, such as favourable fiscal and financing policies that have been formulated to facilitate the speed and scope of outbound M&As (UNCTAD, 2006). Notably, a large fraction of loans go to the state sector, under the guidance of the preferential policies set by the government (Morck, Yeung, & Zhao, 2008). Meanwhile, a number of private companies successfully internationalize under the sponsorship of the government (Wei, Clegg, & Ma, 2015).

However, formal institutions are still weak in China. The absence of structural constraints on government discretion, the lack of intellectual property protection and the imbalanced distribution of resources between state-owned enterprises (SOEs) and privately owned enterprises (POEs) remain salient. By contrast, their Western counterparts enjoy a relatively healthier institutional environment whereby public information is highly reliable, law enforcement is fair and efficient and independent of government influences, and the government makes a credible commitment due to a system of checks and balances, multiple political parties and a non-interventionist doctrine (Stevens & Cooper, 2010).

Chinese outward M&As strongly suggest that international business theory needs to take into consideration the potential relevance of domestic institutional factors in China. Given the significant involvement of the Chinese government in outward M&As, the analysis from the Western context inevitably understates the role that the Chinese government can play (Child & Rodrigues, 2005), with neither the OLI model nor the Uppsala model taking into account the role of government. Notably, the Chinese state is changing both its mind-set and governance style from the closeness in the past to a far-reaching style characterized by openness, transformation and "crossing the river by touching the stones". The shift is largely based on the path-breaking exploratory learning of the state. In this sense, the Chinese state's learning process greatly challenges the assumption of institutional theories that institutional learning follows a path-dependence trajectory (Li, 2010). Therefore, adopting the Western experience will not enable an understanding of the great shift that has taken place in the Chinese state nor its role in the development of China.

1.2.2 Culture and its roots

Compared to the transient nature of institutions, cultural values and their roots are more stable (Barkema et al., 2015). China and the West are very distant in terms of many of their cultural aspects (Chen & Miller, 2010). According to Hofstede (1980), the first salient difference in culture is the long-term vision of China versus the short-term vision of the West. The core culture in China incorporates long-term thinking, oriented by honesty and harmony. The Chinese value what is effective and beneficial in the long term, which is manifested in the surprising patience and tolerance of the Chinese. The second significant variation between China and the West in terms of culture is the collectivism in China versus individualism in the West. China is a collectivistic society where people belong to "groups" that take care of them in exchange for loyalty, whereas most DEs are individualistic societies, where people are supposed to look after themselves or their direct family only (Hofstede & Minkov, 2010). In addition to the institutional issues, this culture also explains why interpersonal relationships are very important to the Chinese. The attitudes towards uncertainty demonstrate the third aspect of cultural difference. In terms of uncertainty avoidance, the Chinese are risk averters; this may be due to the Chinese value of *mianzi* (face). In Chinese culture, Chinese people cherish *mianzi* and are afraid of losing *mianzi*. The fourth aspect of cultural difference is power distance. In China, there are around 1.3 billion people, resulting in a culture of "for you in place of ten others". Due to the high power distance, paternalism in China significantly influences centralized authoritarianism (Chen & Miller, 2010). All kinds of decisions are made by superiors while subordinates dare to make neither important nor simple decisions.

Chinese culture is profoundly influenced by ancient Chinese philosophies. These philosophies have become the roots of Chinese culture. The dominant indigenous philosophies in China are Confucianism and Taoism. The essence of Confucianism is respecting and preserving traditions, revering rulers and maintaining harmony. Confucianism emphasizes morality, benevolence and obedience to authority, which is the foundation of paternalism (Chatzkel & Ng, 2013). Taoism in English refers to "the way" or "the path". The key concept in Taoism, *Wu Wei*, means non-action and effortlessness. Taoism favours "going with the flow" so as to keep harmonious with the universe. It also highlights the Yin Yang duality, the circular nature of changes and interdependent opposites. Taoist philosophy has significantly influenced the long-term vision and inclusiveness and the tolerance of ambiguity in Chinese culture (Li, 2014). The other important philosophies include Mohism, emphasizing equity, impartiality and fairness among individuals, Militarism, focusing on strategic planning, developing defensive and offensive strategies through knowledge and wisdom rather than force, and Legalism, which highlights governing and ruling via a sophisticated system of law. All these ancient philosophies have a profound influence on Chinese culture. Thus, Chinese culture is heterogeneous and pluralistic, in the sense that it is both interpersonal and rule dominant, with both a high power distance and impartiality (Fang, 2012). This greatly challenges the assumption associated with culture that has been made by Hofstede (1980), in which culture is homogenous and an "either/or" phenomenon.

Although culture has been recognized to play a significant role in cross-border M&As (CBMAs) (Rottig, Reus, & Tarba, 2013), only a few studies involve the cultural issues in understanding Chinese CBMAs (Chatzkel & Ng, 2013; Spigarelli, Alon, & Mucelli, 2013). Among these studies, most asserted that Chinese cultural aspects, such as high hierarchy, the tolerance of ambiguity and language, were barriers to CBMAs (Spigarelli et al., 2013). However, there might be a danger that the constructive potential of Chinese culture in international business is neglected.

1.2.3 Management practices

Institutions interacting with cultures and their roots are associated with contemporary business and management practices in China. The Chinese economy is characterized by relation-based capitalism, which is largely shaped by relation-based governance (Li et al., 2003), low institutional maturity (Xin & Pearce, 1996) as well as Chinese traditions

(Chen, Chen, & Huang, 2013). Consequently, the information in Chinese society is usually local and private, with transactions being based on personal and implicit agreements instead of formal contracts. Meanwhile, interpersonal trust, such as the trust of friends and families, and reciprocity maintenance are critical in China. By contrast, the societies in most DEs largely adopt rule-based governance, relying on public information and public trust; that is, the trust of strangers.

Despite the very different contexts in China and the West in terms of their institutions, cultures and associated practices, the current literature in Chinese management research, including the very new phenomenon of outward M&As, is largely built from the perspectives in DEs and DMNEs using translated constructs. Table 1.1 provides the perspectives and constructs on outward M&As for emerging economy multinational enterprises (EMNEs) and CMNEs in the current research. This has led to extremely limited repertoires of solutions and empirical evidence to aid practitioners and policymakers in China who operate under completely different conditions. Therefore, Chinese outward M&As, as an underexplored context, calls for immediate attention in management research.

Table 1.1 Perspectives and constructs on outward M&As by EMNEs and CMNEs in the current research

Theoretical perspective	Independent variable	Western construct	Dependent variable
Resource-based view	Resource related	R&D resource, human resource, resource endowment, competitive advantage/disadvantage, strategic asset	Decision-making regarding choosing acquisitions as entry mode
Knowledge & learning-based view	Capability related	Experience, organizational capability, various forms of knowledge (market, contextual, entry knowledge)	Location choices
Strategic asset perspective	Motivation related	Strategic goals, rational choices, strategic intent, strategic orientation	Financial/economic/ strategic performance
Transaction cost view	Organization -al capability related	Absorptive capacity, organizational experience, learning capability, networks, corporate governance	Acquisition completion
Institutional theory	Ownership related	Ownership concentration/structure, state ownership	
Institutional theory	Institution related	Institutional constraints/incentives, government policy, governmental affiliation, home–host country relationship, host country economic & institutional advancement	
Endogenous growth theory	Technology related	Technology-based competitive advantage, strategic asset	
Market power, economies of scale & scope	Industry related	Industry competition, high-tech industry, industry diversification	
Network/social capital theory, entrepreneurial perspective	Top management team related	International experience, entrepreneurial orientation, management competence, educational background, managerial ties, leadership	
Culture theory	Culture related	Cultural distance, Hofstede's cultural dimension, geographical & cultural proximity	

1.3 Contextualization Research

The emergence of Chinese outward M&As gives rise to the need for a deep contextualization to adequately understand the unique context in which CMNEs are born, develop and operate, which further influences the behaviours of CMNEs both at home and abroad (Meyer, 2014).

To answer the call for contextualization research, it is essential to clarify the "what to study" and the "how to study" issues regarding the contextualization research. Literally, the idea of contextualization relates to how a firm reacts to or interacts with its context. However, Tsui (2006) suggests that "Contextualization means more than talking about environmental opportunities and constraints that managers either exploit or are victimized by. Rather than seeing the firm as one entity and the context or environment as 'out there', we see the context and contextualization as much more" (p. 1). I adopt her concept of "contextualization" in that contextualization refers to "incorporating the context in describing, understanding, and theorizing about phenomena within it" (p. 2).

With regard to the "what to study" issues, a majority of studies adopt an "outside-in" approach. This is a literature-driven approach, using the familiar Western theories to identify what to study in the new Chinese context (Whetten, 2002). While the "outside-in" approach may provide rich topics and references for Chinese contextualization research, there is a danger that some really important and critical issues that are specific to the Chinese context might be missing. Therefore, an "inside-out" approach is suggested. An "inside-out" approach can be seen as an issue-driven approach that attempts to identify the unique, or at least important issues in the Chinese context (Tsui, 2006). The privatization and transformation of SOEs (Jing & McDermott, 2013), soft budget constraints (Tian & Estrin, 2007), which can narrowly be defined as the expected re-negotiability of debts in SOEs (Kornai, 1986), and the relation-based governance of Chinese firms (Li & Filer, 2007) are some examples of issue-driven studies. In this thesis, I mainly adopt the second approach to identify "what to study" concerning Chinese outward M&As.

With regard to the "how to study" issues, the theory development to explain the phenomenon is critical for contextualization research. It is worth noting that most studies involve an application of Western theories in a specific context. However, as mentioned above, the implicit assumptions of these Western theories might not be entirely applicable to the local context (Mathews, 2006). Therefore, it is of great importance to contextualize the theories developed in the context of DEs.

Recently, an increasing number of researchers have suggested creating novel local theories or introducing local constructs; fresh perspectives to explain unique local phenomena (Li, 2012; Mathews, 2006; Xin & Pearce, 1996). To answer this call, some researchers have taken the initiative by embarking on indigenous research, focusing on theory building from a unique Chinese perspective. The adoption of ancient Chinese philosophies to explain contemporary phenomena in the Chinese context has been highly popular in this recent contextualization research. For instance, the Yin Yang perspective has been used to explain Chinese culture (Fang, 2012), Taoist Wu Wei and reflexivity have been used to explain Chinese leadership (Xing & Sims, 2011), and Chinese Confucianism, Taoism, Legalism and Mohism have been used to explain the heterogeneity of corporate controls (Chatzkel & Ng, 2013).

With a growing recognition that outward investment research in the context of emerging economies, in China in particular, may be context-sensitive or context-specific, the collective set of papers highlight the unique value of deep contextualization research with the aim of mainstream theory revisions and modifications, followed by indigenous theory building.

1.4 Introduction to the Chapters

The main body of this thesis consists of a collection of four papers. These four papers illuminate the ambitions mentioned above, with Chapters 2 and 3 discussing the role of the Chinese government and the distinctive institutional environment in China on the emergence of outward M&As, and Chapters 4 and 5 dealing with the strategies of Chinese firms within the specific institutional environment in China and based upon the specific activities of their outward M&As. Figure 1.1 exhibits the structure of the main body of the text.

Chapter 2: Entrepreneurial state

Faced with increasing knowledge flows in the global economy, the opportunities and challenges are largely self-evident for China in the new century. The opening study of this thesis is situated within a technology-intensive industry: the high-speed rail (HSR) industry. Drawn from the strategic entrepreneurship perspective, this chapter shows the positive aspect of the You Wei Chinese government in the context of globalization. The Chinese government has been making great efforts in moving the HSR industry towards innovation-driven development through three dimensions of state-led strategic entrepreneurship: alertness to opportunities; resource exploration and consolidation; and strategic learning. In particular, China tends to build competitive advantages outwardly based on the global innovation system, so that the home-based technology or R&D capacity is augmented by tapping new advantages into existing knowledge networks. This process contradicts the developmental state literature that places the emphasis on technology imitation in the context of developing economies.

Based on the aforementioned remarks, this chapter shows one aspect of the You Wei Chinese government and highlights the importance of strategic entrepreneurship by the Chinese government.

Chapter 3: Capital distortion

This chapter examines whether distorted financing of Chinese outbound M&As exists between SOEs and POEs. An empirical study is conducted using a dataset of 224 outbound M&A deals.

With these two chapters, we explore the ambivalence of the Chinese government towards Chinese outward M&As. While Chapter 2 focuses on the positive face of the You Wei government in terms of outward technology exploration, Chapter 3 examines the somehow abnormal face of the You Wei government regarding its unequal financing of SOE and POE outward M&As. With the two chapters that follow, the aim is to explore the ambivalence of CMNEs in dealing with their outward M&A activities.

Chapter 4: Legitimization

Given the ambivalence of the Chinese government, more broadly, the specific institutional environment in China, the question regarding how Chinese companies can survive and maintain themselves as going concerns is intriguing. In the context of Chinese outward M&As, a key assumption underlying much of the extant research is that outbound M&As have been recognized and adopted as a legitimate approach for internationalization by both the government and companies. Although this is a plausible assumption supported by aggregate data and provisions written in the national plan, if we look at the specific cases from a process-oriented perspective, the legitimacy of Chinese outbound M&As is not as simple as a provision written in the law. Considerable obstacles make the legitimization process of Chinese outbound M&As more complex compared to the situation in DEs, where M&As are subject to corporate governance rules and the approval of shareholders, while there are more checkpoints in China's case. One major checkpoint is related to a rigid approval system. According to the regulations, overseas investment projects over a certain amount must be submitted to the relevant authorities for a "step by step approval, and quota management" (Ministry of Commerce of China, 2009). This regulatory arrangement increases the difficulty of potential acquiring firms (AFs) to carry out outbound M&As. Another checkpoint is associated with the financing of outbound M&As. Outbound M&As find it difficult to succeed without financial support. However, Chinese AFs are subject to financial restrictions, in terms of the amount of domestic loans and foreign exchange. This restricted financial support limits the financing capacity of Chinese AFs in outbound M&As, making them miss some opportunities.

The purpose of this chapter is to clarify the key stakeholders involved in the legitimization process of Chinese outbound M&As and to gain a better understanding of the mechanisms through which Chinese outbound M&As achieve legitimacy, where the foundation lies in a combination of stakeholder theory and institution-based viewpoints. Based on a multiple-case study approach, and relying on in-depth interviews with top managers in CMNEs, three cases are examined.

Having explored the proactive behaviours of Chinese acquirers upon realizing the legitimacy of outward M&As, the next chapter expands the discussion about the behaviour of Chinese acquirers in the host countries.

Chapter 5: Wu Wei in post-acquisition integration

Extant research suggests either a full or a partial structural integration, with the acquirers' initiated top-down planned integration held in high regard. Recently, a handful of researchers have found that EMNEs adopt a light-touch integration approach which differs from the structural integration adopted by DMNEs. Drawing on multiple cases of outward M&As by CMNEs, the purpose of Chapter 5 is to explore the antecedents and consequences of this novel integration approach by CMNEs and to obtain a holistic understanding of their integration processes in DEs.

Table 1.2 provides an overview of the studies discussed in Chapters 2–5.

Table 1.2 Overview of the studies in Chapters 2–5

Content	Chapter 2	Chapter 3	Chapter 4	Chapter 5
Specific topic	China's HSR industry	The financing of CMNEs	The legitimization of CBMAs	The integration of CBMAs[1]
Level of analysis	Industrial level	Acquiring firm level	Stakeholder level	Acquiring & acquired firm level
Research question	What is the role of the Chinese government in technology innovation development?	How is the financing allocated between SOEs and POEs? And what is the impact of the financing allocation on the performance of AFs?	Who are the salient stakeholders in the legitimization process of Chinese outward M&As? And what actions are taken to deal with these stakeholders?	How do the antecedents of integration matter in CMNEs' integration approach? And how does the emerging integration approach function in CMNEs' post-acquisition integration in DEs and what are the consequences?
Perspectives/ concepts/ theories	Concept of "entrepreneurial state", strategic entrepreneurship theory	Financing theory: the disciplining effect of debt financing, financing order based on the financing cost	A process-oriented perspective, stakeholder theory, institution-based view	A "go with the flow" perspective
Methods	Single case study	OLS regression	3 case studies	12 case studies
Data collection	Archival data	Dataset	Semi-structured interviews, archival data	Semi-structured interviews, archival data
Contribution	Conceptualization of an "entrepreneurial state" in the Chinese context	Rejection of the disciplining function of debt financing on firm value	Conceptualization of the legitimization process in China	Conceptualization of the post-acquisition integration process

[1] In this thesis, outbound M&As, outward M&As and CBMAs are used alternately.

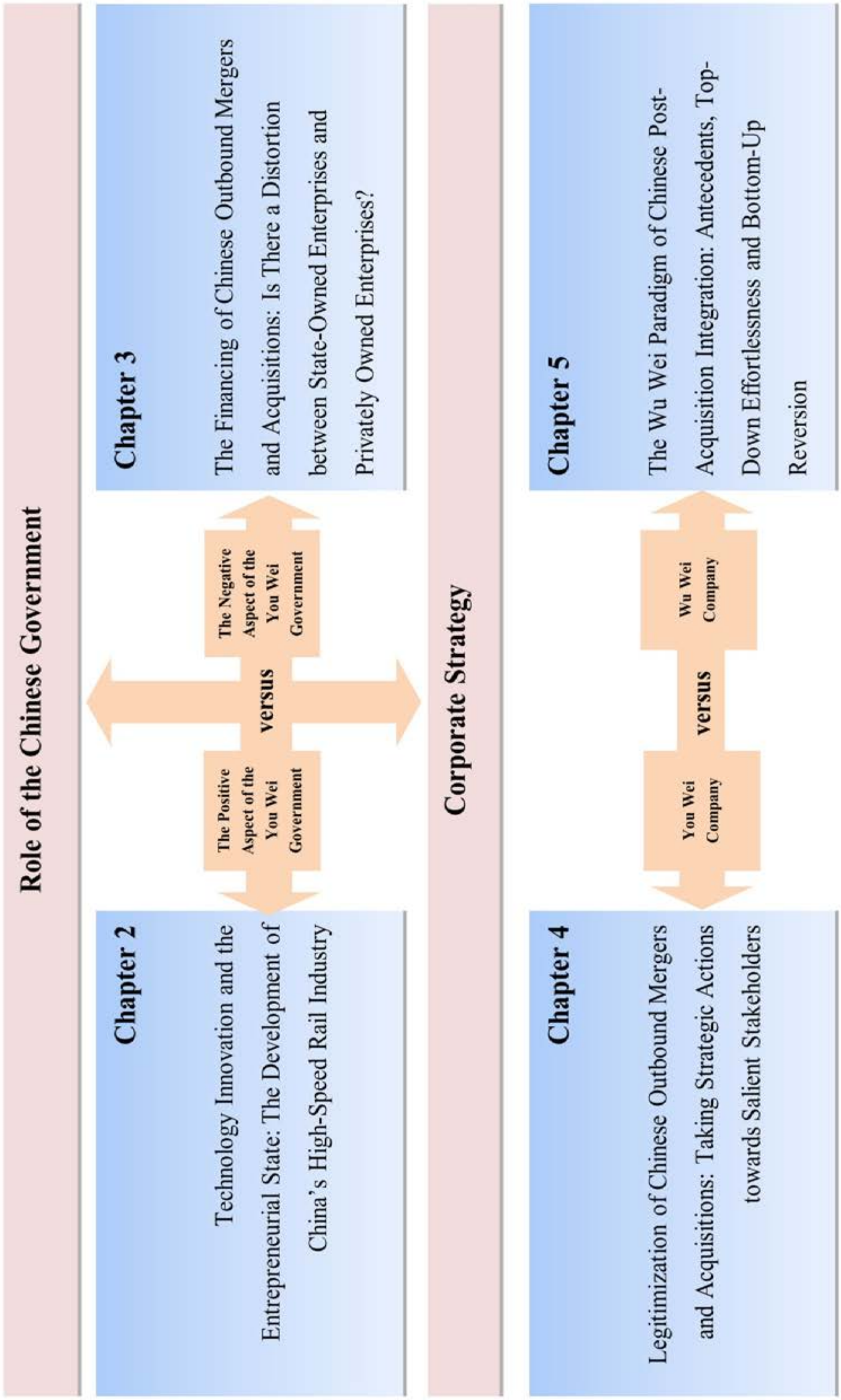

Figure 1.1 Graphical depiction of the chapters

CHAPTER 2

Technology Innovation and the Entrepreneurial State: The Development of China's High-Speed Rail Industry

China proactively promotes indigenous technology innovation aimed at developing an innovation-based economy. This contradicts the developmental state literature that places the emphasis on technology imitation. Drawn from the strategic entrepreneurship perspective, this study explores the role of the government in China's technology innovation process. Carrying out a case study in the high-speed rail (HSR) industry, it suggests that it is best to understand the Chinese government as an entrepreneur in moving China's HSR industry towards technology innovation-driven development through three dimensions of state-led strategic entrepreneurship: alertness to opportunities; resource exploration and consolidation; and strategic learning. This study highlights the importance of strategic entrepreneurship to the government in an emerging economy context and contributes to the literature by building a conceptual framework of an "entrepreneurial state".[2]

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[2] This chapter is based on a paper that was published in the journal *Technology Analysis and Strategic Management*: Sun, Z. (2015). Technology innovation and entrepreneurial state: The development of China's high-speed rail industry. *Technology Analysis & Strategic Management*, 27(6), 646–659.

2.1 Introduction

China's high-speed rail (HSR) industry has developed rapidly in recent years. By 2014, the HSR had connected 28 provinces. The operational mileage of the HSR reached 16,000 kilometres, accounting for more than half of the mileage in operation in the world (*Xinhua*, 2015). The government has been making a great effort to move the HSR industry towards technology innovation-driven development. This process contradicts the developmental state literature associated with industry and technology development, which focuses on low-end manufacturing and technology imitation and which sees technology innovation at best as being of marginal significance (Bell & Pavitt, 1997; Zeng & Williamson, 2007).

Drawn from the strategic entrepreneurship perspective, this study introduces the concept of an "entrepreneurial state" to understand the role of the Chinese government in HSR technology development. The idea of an "entrepreneurial state" differs from that of a "developmental state" and the role of the state assumed in neo-classical economics, where state intervention is highly dis-appreciated. Through the prism of strategic entrepreneurship, an "entrepreneurial state" focuses on alertness to opportunities and the strategic use of resources. In this study, we explore a Chinese-style entrepreneurial state in developing the HSR industry that places the emphasis on alertness to emerging opportunities to achieve indigenous technology innovation. How is the government able to exploit the opportunities? One indispensable element is that the government should strive to explore new sources of innovative resources, such as cross-border technology acquisitions, and to then consolidate these resources. To sustain the state-led strategic entrepreneurship over time, strategic learning is the key (Amsden, 1992). It helps the government to refine its effective use of strategic entrepreneurship (Kyrgidou & Hughes, 2010). The manifestation of strategic learning is usually the launch of new public policies and programmes (Yu, 2001), such as the Five-Year Plans and the "Medium-to-Long-Term Science and Technology Development Plan (2006–2020)" (MLP) (Gu, Lundvall, Liu, Malerba, & Serger, 2009). Overall, three dimensions of state-led strategic entrepreneurship, alertness to opportunities, resource exploration and consolidation, and strategic learning, together promote the technology innovation development in China's HSR industry.

We regard this research as imperative. Prior literature on technology innovation is largely biased towards the study of developed economies (DEs) who have taken the leadership role in technology innovation (e.g. Mazzucato, 2011). Although the recent literature has studied technology development in emerging economies, most studies focus on various industrial and technology policies (e.g. Liu, Simon, Sun, & Cao, 2011; OECD, 2008) and little is known about the logic behind these policies. Take China, for example; although the Chinese government is developmentally oriented and committed to manufacturing-led growth (Duckett, 1996), it has been dedicated to developing high-end but high-risk manufacturing industries and building indigenous innovation capacity in recent years. Thus, China might provide an appropriate context to activate the research regarding the role of an emerging economy government in the process of technology innovation development.

This chapter starts with a discussion on China's economic policies, which leads to a review of "entrepreneurial state" concepts. Having laid the theoretical foundation, Section 2.3 briefly describes the methodology. It is followed by Section 2.4, describing the technology development in China's HSR industry. Section 2.5 explores the role of the Chinese government in this development and develops a conceptual framework of the "entrepreneurial state". This chapter concludes with some of our theoretical insights and suggestions for future research.

2.2 Chinese Government: Developmental State or Entrepreneurial State?

A remarkable feature of the developmental state is its powerful strength in driving industrialization in selective industries, with a developmental orientation on manufacturing-led growth (Johnson, 1982). In line with the imperative of manufacturing-led catch-up growth, the government gives prominence to industrial-specific policies on selected new industries with export potential (Yu, 2001) and cost advantages (Zeng & Williamson, 2007). In parallel, foreign technologies are introduced and applied immediately in the production process. Technology innovation, by contrast, is seen at best to be of marginal significance (Bell & Pavitt, 1997). The governments in the East Asian region, such as China, have played a developmental role in the "Asian Economic Miracle" in the late twentieth century (World Bank, 1993).

2.2.1 The Chinese government and technology development

Following the economic reform in 1978, the Chinese government adopted distinctly "developmental" policies by proactively implementing its "open-door" strategy. A great number of foreign technologies and equipment were brought into China. Sino-foreign joint ventures and wholly foreign-owned multinational enterprises (MNEs) were approved to establish factories in coastal cities where the industrial base was relatively strong (Tang & Hussler, 2011). In the following years, the adoption of this "open-door" strategy significantly improved the manufacturing capacity and the export performance of China.

However, the MNEs were profit-driven, making use of China's cheap resources. The problems arose after the 1990s. On the one hand, domestic enterprises heavily depended on foreign technologies and earned only marginal profits, and on the other hand, such extensive economic growth at the cost of rare resources and the environment would not benefit the economy in the long term. Facing these problems, the government felt that it was necessary to adjust the "open-door" strategy. From then on, MNEs were encouraged to establish R&D centres and regional headquarters, invest in high-tech industries and overseas talent was welcome to work in China (Tang & Hussler, 2011). More importantly, the government was aware of the necessity of promoting domestic enterprises to the mainstay of technology innovation and building China's own competitive advantages (Liu et al., 2011).

Faced with increasing knowledge flows in the global economy, the opportunities and challenges are largely self-evident for China in the new century (Dunning, 2003). The government realized that it was important for China to integrate itself into the global innovation system and enhance its innovation capacity through learning from leading innovators. Therefore, the "open-door" policy was reframed by introducing the "go-global" strategy. Enterprises were encouraged to explore innovative resources by establishing R&D and design centres and carrying out outward innovation collaborations abroad.

China has made great achievements for over three decades through its “historical reflection, grassroots experimentation, top-down trial and error” (OECD, 2008, p. 392). A number of innovative enterprises, such as Huawei and ZTE, have emerged. Chinese technologies in certain fields, such as cyber security and aerospace, have become world leaders. The MLP, launched in 2006, was developed with the ambition of transforming China towards an innovation-based economy by 2020 through further enhancing its indigenous innovation capability (Gu et al., 2009). Highlighted in the 11th and 12th Five-Year Plans, “building an innovation-based economy” has become the core strategy of the government.

2.2.2 A new perspective: “Entrepreneurial state”

It seems that the Chinese government has deviated from its usual route as a developmental state. Instead of following the old manufacturing-led growth through technology imitation, it has begun to explore a new path of growth led by technology innovation. What is the role of the government in this new path? To answer this question, we introduce the concept of the “entrepreneurial state”.

The entrepreneurial state takes a leadership role in technology innovation through policies and programmes of large investments and the associated risk aimed at achieving technology innovation-driven development (Mazzucato, 2011). In the USA, for example, the government invests heavily in new and unexplored technologies through funding public research institutes, universities and industrial R&D. “Unlike in a developing economy where the technology is already available elsewhere in the world, an entrepreneurial state does not yet know what the details of the innovation are”, thus it has to take the lead by “formulating a vision of a new area, engaging in the earliest-stage R&D which the private sector is unable or unwilling to do” (Mazzucato, 2011, pp. 70–71). Notably, the “entrepreneurial state” highly values government interventions in the innovation process, which explicitly contrasts with the idea of neo-classical economics. Meanwhile, the “entrepreneurial state” focuses on indigenous innovation; it mainly highlights the role of government in the adoption of new methods or goods stemming from home-grown ideas originating in the national economy, instead of individual grassroots innovation (Phelps, 2013).

The entrepreneurial state has also been discussed in the study of technology innovation in Asian newly industrialized economies (NIEs). Ebner (2007) suggested that entrepreneurial states have been prevalent in Asian NIEs, since the governments are concerned about the shift from a pattern of catch-up growth within an established techno-economic paradigm to a pattern of innovation-led growth in an uncertain paradigm. Thus, the “entrepreneurial state” refers to a policy-related effort towards technology innovation to cope with an evolving techno-economic paradigm. Meanwhile, entrepreneurial states combine global production networks and local conglomerations of knowledge-intensive innovation activities by utilizing the opportunities of globalization (Ebner, 2007). The government in Singapore, for example, introduces MNEs into the local economic system and upgrades technologies by leveraging inward foreign direct investment (Ebner, 2004; Wong, 2001). Similarly, the government in Taiwan has played an entrepreneurial role in developing the information industry by responding to the limited technological resources and striving to create new sources of competitive advantage (Wang, 1995).

Other studies on the entrepreneurial state have gone beyond the focus on technology innovation. Yu (1997) introduced this concept to explain the economic growth in Asian NIEs. Differently, the entrepreneurial state here is similar to a human being: it is keen to identify and exploit opportunities through a process of strategic planning, learning, planned revision and error elimination (Yu, 2001). In the conceptualization of Pereira (2004), the government’s profit-generation objective and the actions to realize it are the key features of an entrepreneurial state. Using this concept, the cases of the Singaporean government’s transnational industrial parks in Batam and Suzhou were studied. By studying the financialization in East Asia, Rethel and Sinclair (2014) found that the construction of bond markets is attributed to the entrepreneurial states in this region, who focus on institutional innovation through either adapting old institutions to new purposes or creating new institutions.

Only a few researchers have adopted the concept of the “entrepreneurial state” to the study of local governments in China. Duckett (1996, 2001) applied it to define the profit-seeking and risk-taking business activities operated independently by the local government in Tianjin. Following Duckett's concept, Zheng (2010) argued that the local government manifests a remarkable feature of an entrepreneurial state in the prosperity of creative industrial clusters in Shanghai, since it participates in urban development as a market player and profit seeker. Table 2.1 presents the key features of an "entrepreneurial state" and a "developmental state".

The strategic entrepreneurship perspective suggests that a good performance results from simultaneous opportunity-seeking and advantage-seeking behaviours (Ireland, Hitt, & Sirmon, 2003). However, start-ups are usually more effective in identifying opportunities but are less skilled at developing competitive advantages needed to exploit the opportunities. In contrast, large, established firms are relatively more effective in establishing competitive advantages but are less able to identify new opportunities (Ireland et al., 2003, p. 963). Thus, for start-ups, it is of importance to strategically structure, bundle and leverage resources, to creatively and innovatively combine these resources to create value, while for large established firms, alertness to new opportunities is essential. How can firms achieve a sustainable competitive advantage? The integration of strategic learning practices into the strategic entrepreneurship process helps firms to sustain prosperity over the long term (Kyrgidou & Hughes, 2010). Strategic learning involves a process of plan making, implementing, trial and error, and revision (Amsden, 1992), either to resolve immediate problems and improve current activities, or to create new, unique ways of doing things (Kyrgidou & Hughes, 2010). Obviously, it is not a one-time effort, but an iterative process based on the stock of experience and knowledge of the entrepreneurs across, within and from the entrepreneurial processes (Kyrgidou & Hughes, 2010). Therefore, the sustainability of strategic entrepreneurship is the cumulative result of strategic learning.

Strategic entrepreneurship has been discussed implicitly in the prior "entrepreneurial state" literature (e.g. Ebner, 2007; Mazzucato, 2011). In the USA, the entrepreneurial state focuses on new opportunity identification and technology creation, while in Asian NIEs, the entrepreneurial states are more inclined to build competitive capabilities and capture the opportunities through innovative resource leveraging. Drawn from this perspective of strategic entrepreneurship, the remainder of the chapter explores the role of the Chinese government in technology innovation development.

Table 2.1 The key features of an "entrepreneurial state" and a "developmental state"

	Entrepreneurial state	Developmental state
Imperative	Innovation-led growth	Manufacturing-led growth
Approach	Opportunity identification; risk-taking and profit pursuing; new business/institution building	Policy preference for industries with export potential and cost advantage
Technology style	Technology absorption and creation	Technology introduction and imitation
Governance mode	Encourage, coordinate and facilitate	Command and manipulate
Source of resources	Local and global innovative resources	Local and foreign manufacturing resources
Future	Uncertain	Certain

2.3 Research Methodology

We apply a case study approach in this research. Regarding the case to study, China's HSR industry is extraordinarily appropriate. An astonishing development of this industry has been witnessed in merely 20 years. The lengths and speeds of the HSR in China have surpassed other countries, making the HSR network number one in the world (Takagi, 2011). Moreover, China has "frog leaped" to become a leader in HSR technologies. China today is the fourth country in the world that systematically uses 300km/h technologies in its HSR network.

The data collection relies on desk research, through which secondary data are collected from various sources. The first source is yearbooks and annual reports of major enterprises in the HSR industry, such as China South Locomotive and Rolling Stock Industry Group Corporation (CSR), China North Locomotive and Rolling Stock Industry Group Corporation (CNR) and their subsidiaries. The second source is the prior academic research related to China's HSRs. The third source is the online news.

Specifically, we collected online news through two channels. One important channel is the domestic government's official websites and authoritative publishers, such as www.nra.gov.cn, www.gaotie.cn, www.china-railway.com.cn, www.most.gov.cn, *Xinhua*, *China Daily* and the *People's Daily*. The other channel is foreign publishers, such as the *Financial Times*. The multiple sources ensure the validity and reliability of the information (Yin, 1994).

2.4 Key Strategies in China's HSR Technology Development

The railway network plays a leading role in China's transportation system and is the main artery of the national economy. However, China's railway network was underdeveloped, utilizing old technologies, and showing a huge discrepancy between transport capacity and actual demand. Thus, China needed to bolster its rail capacity to maintain its economic development. In the case description, the technology development of China's HSR industry has been divided into three periods, in each of which different strategies were implemented. We attempt to link these key strategies that greatly promoted HSR technology development with the actions of the government in order to study the role of the government in this process.

2.4.1 1992–2003: Self-reliant technology R&D

The HSR construction plan was proposed in the mid-1980s, but had not been formally implemented until nearly a 10-year analysis and verification procedure had been undertaken. The construction of China's HSRs was formally put on the agenda in 1992, with the issue of "Railways in the Next Decade and the Eighth-Five-Year Plan of Technology Development Programme" by the Ministry of Railways (MOR). Meanwhile, the MOR launched a feasibility study of the Beijing–Shanghai HSR Project. Around 1997, the MOR established a specialized technology research group for the Beijing–Shanghai HSR Project, which was devoted to the R&D and manufacturing of HSRs at 200 km/h. Up to 2003, China had developed HSRs indigenously. Table 2.2

lists China's indigenously developed high-speed train models during this period. Although some parts depended on imports, these domestic train models were designed mainly with independent intellectual property (Chan & Aldhaban, 2009).

The development of "China Star", for example, is attributed to the domestic collaboration organized by the MOR. The four major enterprises specialized in locomotive manufacturing were involved in the project. Zhuzhou Electric Locomotive Works and Datong Locomotive Works were responsible for the R&D of powered vehicles. CNR Changchun Railway Vehicles (CRV) and CSR Sifang Locomotive Works took charge of the R&D of the trailers. In addition to the manufacturing enterprises, the two leading universities specialized in track technology (Southwest Jiaotong University and Central South University) and the four research institutes in the railway system (Zhuzhou Electric Locomotive Research Institute, China Academy of Railway Sciences, Sifang Rolling Stock Research Institute and Qishuyan Locomotive and Rolling Stock Technology Research Institute) all participated in the project. The collective R&D yielded fruitful outcomes. In 2001, "China Star" entered the trial stage. In 2002, "China Star" reached a top trial speed of 321.5 km/h, which was the highest speed ever achieved in China's railway history.

Although developed based on China's own effort, these indigenously developed trains were not perfect to some extent. The repair rate of domestic train sets was higher than the international standard. "China Star" experienced serious bearing overheat issues after setting the maximum trial speed of 321 km/h in late 2002 (Chan & Aldhaban, 2009). The MOR realized that the domestic technology was not mature enough when compared to that of DEs who had spent decades developing HSR technologies.

Table 2.2 Indigenously developed high-speed train models

	Blue Arrow	Pioneer	China Star	Changbai Mountain
Trialling time	1999	2001	2001	2003
Maximum trial speed (km/h)	249	292	321.5	224
Operational speed (km/h)	200	200	200	200
Quantity	8	1	1	2

2.4.2 2004–2007: Inward technology exploitation

This period experienced a change from depending on self-reliant technology innovation to the introduction of foreign technologies. The “Long-Term Plan of the High-Speed Rail Network”, approved by the State Council in 2004, marked this change. The new plan clarified three strategies in terms of inward technology exploitation: (1) import advanced HSR technologies from MNEs, (2) design and produce jointly, and (3) build Chinese brands. Meanwhile, nine core technologies for import were identified by the MOR, including system integration, body shells, network control systems, traction control systems, braking systems, traction converters, traction transformers, traction motors and bogies. Following the first strategy, the MOR started up a series of technology imports and train set purchases from France, Japan, Canada and Germany between 2004 and 2007. In line with the second strategy, about 20% of the introduced train sets were produced in the countries of origin and the remaining 80% were produced in China under technology transfer licenses (Takagi, 2011). The MOR assigned two leading state-owned enterprises (SOEs) – the CSR and CNR – to localize the production. Associated with the third strategy, these train sets were named as China Railway High-Speed (CRH) (“Hexie Hao” in Chinese). Table 2.3 illustrates the details.

The large-scale technology import created an opportunity for China to learn from foreign innovators and obtain treasurable experience, and helped China to build a modernized HSR manufacturing system. Yet, technology imports are conducive to enhancing the manufacturing capability rather than the technology innovation capability. MNEs only provided the design drawings of train sets and components and they sent technicians to teach Chinese engineers how to produce the sets and components. An example mentioned by the CSR engineers demonstrates this. Regarding the role of the elongated rubber windshields that are between the connections of two carriages, the foreign technicians simply explained to the Chinese engineers that these windshields would prevent the passengers from falling from the platforms. However, after the research phase, the Chinese engineers found that the windshields actually functioned as an alternative to the bogie by preventing the trains from rolling sideward. The need for technology absorption and assimilation induced the indigenous basic research team to explore the principles underlying the imported technologies and products (Liu, Cheng, & Chen, 2011). Thus, the focal strategy changed again.

Table 2.3 Inward HSR technology exploitation

Year	Beneficiary	Licensor	Description
2004	CNR CRV	Alstom (France)	In 2004, the MOR ordered 60 train sets at 200 km/h from Alstom with 620 million Euros, including the transfers of 7 core technologies. Among the 60 train sets, 3 were produced by Alston's factory in Italy, 6 were delivered in complete knockdown form and reassembled in China and the remaining 51 were produced in CNR CRV under the technology transfer license
2004/ 2005	CSR Qingdao Sifang Locomotive Co., Ltd (Sifang)	Kawasaki Heavy Industries Ltd (KHI) (Japan)	In 2004, the MOR ordered 60 train sets at 200 km/h from KHI with 9300 million Yuan, including several core technology transfers. Among the 60 train sets, 3 were produced in Japan, 6 were delivered in complete knockdown form and reassembled in China and the remaining 51 were produced in CSR Sifang under the technology transfer license. In 2005, the MOR ordered 60 train sets at 300 km/h from KHI
2004/ 2005/ 2007	CSR Sifang	Bombardier (Canada)	In 2004, the MOR ordered 20 train sets at 200 km/h from Bombardier Sifang Power (BSP), a joint venture between Sifang and Bombardier. In 2005, the MOR ordered the second batch of 20 train sets at 200 km/h with 2583 million Yuan. In 2007, BSP got a new order of 40 train sets from the MOR
2005	CNR Tangshan Railway Vehicles (TRV)	Siemens (Germany)	In 2005, the MOR ordered 60 train sets at 300 km/h with 669 million Euros and 9 core technology transfers with 80 million Euros from Siemens. Among the 60 train sets, 3 were produced in Germany and the remaining 57 were produced in CNR TRV under the technology transfer license

2.4.3 2008–present: Indigenous technology creation and outward technology exploration

The revised strategy for developing China's HSRs was guided by the "Medium-to-Long-Term Railway Network Development Plan" approved by the State Council in 2008. This plan set up the goal of building internationally competitive HSRs and indigenous brands. To achieve this goal, the MOR and the Ministry of Science and Technology (MOST) signed the "Joint Action on Developing Indigenous Innovation of

China's High-Speed Rail", aiming to build an HSR technology innovation system based on the experience of technology imports. From 2008 to 2010, the National Natural Science Foundation of China sponsored 55 HSR-related R&D projects, of which 33 projects (above 67%) were dedicated to absorbing the imported technologies and developing new technologies in accordance with China's situation (Liu et al., 2011). The MOR and MOST consolidated 11 research institutes, 25 universities, 51 national laboratories and engineering research centres, and 2 leading SOEs and their subsidiaries to participate in these projects. By doing so, enterprises would be able to cooperate closely with research institutes and universities. In addition, the MOR coordinated with manufacturers in the trial phase, which helped save a considerable amount of time in testing the newly developed trains.

The HSR industry greatly benefitted from this consolidation model that formed a complete chain from the basic research, applied research and comprehensive testing to applications. China had established a relatively complete HSR technology innovation ecosystem. Ultimately, Chinese enterprises are the beneficiaries. From 2008 to 2010, Chinese listed enterprises in the HSR industry applied for 1284 patents, accounting for 72% of the total applications from 1985 to 2011 (Wang, Yang, & Zhu, 2011). The indigenously developed train set at 350 km/h (with a maximum speed of 380 km/h), named CRH380A, produced by CSR Sifang in 2010, incorporated a world-class traction converter, network control, head design and high-speed bogie technologies.

In addition to the home-based technology innovation effort, the government considered taking advantage of global innovative resources to enhance China's HSR technology innovation capability further. The landmark events were approved in the 12th Five-Year Plan and the "12th Five-Year National Development Plan of Strategic Emerging Industries" by the State Council in 2011 and 2012. According to the plans, domestic railway equipment manufacturers are encouraged to conduct international collaborations and to acquire foreign enterprises and research institutes. A list of the well-known outward HSR technology acquisitions is shown in Table 2.4.

The Chinese government has played an active role in these acquisitions. During the periods when Chinese President Jinping Xi and Premier Keqiang Li visited Western Europe in 2014, they proactively promoted the establishment of innovation partnerships with DEs in the HSR industry. On 28 March 2014, witnessed by Chinese President Xi and German Chancellor Merkel, CSR and ZF signed a cooperation memorandum for the acquisition of the BOGE Programme, the third largest supplier of automotive damper products in the world. This transaction is currently the largest Sino-European acquisition in the HSR industry. Later in August 2014, MA Steel completed the acquisition of French Valdunes, one of the four largest HSR wheel manufacturers in the world. Notably, this new round of technology acquisitions focused on the forefront technologies for the key components. Meanwhile, Chinese enterprises tended to establish R&D centres in the acquired companies. In this way, China attempted to integrate external innovative resources into the existing HSR technology innovation system.

Table 2.4 Major outward acquisitions of HSR technologies

Year	Acquirer	Acquired	Description
2008	CSR Zhuzhou Times New Material Technology Co., Ltd (TMT)	Dynex Power Inc. (Dynex) (located in the UK, listed in Canada)	CSR TMT acquired a 75% stake of Dynex with 109 million Yuan. Through the acquisition, CSR TMT mastered IGBT technology, which is the core to developing HSRs at 350 km/h. A leading high-power semiconductor R&D centre was established in the UK. This was the first outward acquisition in China's railway equipment manufacturing industry
2011	CSR TMT	Delkor Rail (Delkor) (Australia)	CSR TMT acquired a 100% stake of Delkor with 18.8 million Yuan. CSR TMT attempted to enhance its competitiveness by utilizing Delkor's R&D capability in track shock absorber products
2013	CSR TMT	Rubber & Plastics Division (BOGE Programme) in ZF Friedrichshafen AG (ZF) (Germany)	CSR TMT acquired full assets of ZF's BOGE Programme with 290 million Euros, including 10 global production bases and 4 R&D centres. The acquisition was conducive to making TMT a global developer in automotive damper products
2014	Maanshan Iron & Steel Co., Ltd (MA Steel)	Valdunes (France)	MA Steel acquired Valdunes with 13 million Euros. The acquisition was beneficial to MA Steel in terms of HSR wheel R&D, design and production. A new company, MG Valdunes, has been established. An R&D centre will be established within MG Valdunes

2.5 Why an Entrepreneurial State?

China's HSR industry development shows that the government has led the transformation that has been independent of the technologies of DEs. The question as to why the Chinese government was able to do so in this case poses an interesting theoretical puzzle. We argue that the government assumed an entrepreneurial role and was alert to the opportunity to develop the high-risk HSR technologies (Barrett, 2014). However, opportunity alertness is only part of the answer. To get the full answer, it is important to understand how the government was able to exploit the opportunity.

The exploitation of opportunity, first of all, is essentially related to the strategic management of resources (Ireland et al., 2003). This is different from the developmental state, which directly commands and manipulates the existing resources. Specifically, the Chinese government performed two tasks: the first task was to act as a resource explorer. The HSR case presents a Chinese-style technology innovation strategy, which signals that indigenous innovation does not aim at decoupling China from global sources of innovation. The Chinese government took advantage of HSR technology acquisitions with a strategic intent (Rui & Yip, 2008). Through a linkage with and proactive learning from DEs (Mathews, 2006), technology acquisitions can be a new source of building competitive advantages (Buckley, 2002; Child & Rodrigues, 2005; Wang, Hong, Kafouros, & Boateng, 2012; Zanfei, 2000). Notably, outward HSR technology exploration has appeared in recent years. It marks a new era for China's HSR technology innovation, since China now tends to build competitive advantages outwardly based on the global innovation system.

The second task is to play the role of resource consolidator. The MOR and MOST consolidated various parties and resources, which would otherwise have been dispersed and it would have been difficult to bring about a synergetic effect. This nationwide consolidation model not only originated in China's HSR industry, but was also unprecedented in China's industrial development history (Liu et al., 2011). In so doing, the complementary knowledge between China's HSR technology bases and advanced technologies in different locations created unique competitive advantages (Hitt, Ireland, Sirmon, & Trahms, 2011), such as its absorptive or learning capacity (Deng, 2010b; Minin, Zhang, & Gammeltoft, 2012; Mathews, 2002). Furthermore, the home-based technology or R&D capacity was augmented by tapping new advantages into the existing knowledge networks (Minin & Zhang, 2010).

Second, successful opportunity exploitation over time is attributed to the government's strategic learning. Derived from prior experience in developing the railway industry, and accumulated knowledge during participating in the present HSR innovation process, the Chinese government formed the capability for strategic learning. The government's decision-making for the HSR construction did not emerge groundlessly, but was a necessary response to the insufficient rail capacity in China. Meanwhile, the core HSR strategies experienced several modifications. When the shortfalls in resources became apparent during the HSR innovation process, or when the increasingly open international environment provided new resource options and the means to acquire them, the government revised its strategies in a timely fashion in order to adjust or to design its new resource management plan. In so doing, the technology innovation opportunity could then be exploited appropriately and effectively (Yu, 2001).

In short, the "entrepreneurial state" in our conceptualization is alert to opportunities and has strived to explore new sources of resources and new methods of resource management to act upon the opportunities, accepting the associated risk and uncertainty. Meanwhile, strategic learning improved the effective use of strategic entrepreneurship.

2.6 Discussion and Conclusion

This study makes two contributions to the literature. First, this study sheds light on the "entrepreneurial state" in an emerging economy context. It is the first attempt that explicitly highlights the importance of "strategic entrepreneurship" to emerging economy governments. Prior literature argued that the government creates or identifies opportunities for technology breakthroughs with risks that are too large to be developed by private firms, thus it is an entrepreneurial state (Mazzucato, 2011). This perspective is heavily biased towards the DE governments who already possess competitive advantages. However, as for emerging economy governments that are capable of identifying opportunities but lack competitive advantages, it appears to be more important for them to build competitive advantages and exploit opportunities through managing their resources strategically.

Second, this study contributes to the "entrepreneurial state" literature by building a conceptual framework of the "entrepreneurial state". Three dimensions of an "entrepreneurial state" have been identified from the HSR case, that is, alertness to opportunities, resource exploration and consolidation, and strategic learning. Although some of these aspects, alertness to opportunities in particular, have been recognized in the prior literature (e.g. Carroll, 1992), no research has been done to systematically illustrate their relationship. As for alertness to opportunities, viewed as the essence of entrepreneurship (Kirzner, 1979), it informs the government of the pursuit of HSR technology innovation opportunities. As for resource exploration and consolidation, it helps us better understand how the opportunities can be exploited by the government. As for strategic learning, it is suggested that the opportunities being able to be exploited over time are due to the government's continuous assessment of the current resources and capabilities, and the observation of the dynamic environment. It is the premise for each transition of the HSR technology innovation strategy.

Here, we highlight some of key controversies faced by the entrepreneurial state in China through the lens of HSR technology innovation development and propose our suggestions for future research. First, technology acquisition as part of China's entrepreneurial state is definitely untenable from the conventional Western viewpoint. In their eyes, the Chinese government is a developmental state, as it is assumed to pursue a short-sighted and quick-success logic of technology acquisition and imitation. We would argue that the government did not seek immediate benefits through technology acquisitions, but was more concerned about adopting a consolidating method to enhance the indigenous technology innovation capacity of the HSR industry. The process challenges the Western viewpoint. However, it has attracted little attention. This is partly due to some negative news about China's HSRs associated with technology imports (e.g. *Financial Times*, 2007). We refuted these views in Section 2.4, by highlighting how the domestic parties explored the scientific principles underlying the imported technologies under the coordination of the government.

Moreover, the specific strategy, outward technology exploration, is hardly acceptable as a reliable value-added source. This is because outward technology acquisitions usually suffer high failure risks due to cross-border managerial divergence and the insufficient absorptive capacity of China (Deng, 2010a). Nonetheless, we would say that instead of ensuring that everything is certain, outward technology exploration fits the “risk-taking” feature of entrepreneurship. Despite uncertain financial performance, it provides an opportunity to offset the managerial divergence and enhance the absorptive capacity through outward activities. In turn, national competitiveness will be enhanced when the capacity is transferred back to China (Bartlett & Ghoshal, 2000; Luo, Xue, & Han, 2010). Although the effect of outbound technology exploration in China’s HSR industry may be quantitatively untestable due to the small sample size at present, it would benefit from qualitative studies.

Second, an “entrepreneurial state” has promoted China’s HSR technology innovation and transformed the industry from a technology follower to a leader. Is it therefore an experience that other emerging economy states should learn from? We must say that China’s HSR case is unique; it would be difficult for other countries to replicate it. This is attributed to the specific political and economic system in China. China’s HSR industry is actually dominated by only a few large SOEs and research institutes that are controlled by the government. That made it possible for the Chinese government to mobilize various parties and resources. Without this condition, replication would be difficult. In addition, the great advantages in China, such as the massive population, vast territory and rapid economic growth, made developing HSRs profitable to foreign conglomerates who possessed advanced technologies. This was an opportunity that the Chinese government was able to make use of; however, many other countries do not seem to have such a precondition in place.

Consequently, this uniqueness leads to the question as to how the framework of the “entrepreneurial state” could be developed further. We believe that the ideas we introduce can serve as a basis, and can be enriched and extended by taking national variations and sector characteristics into account. More attention should be paid to whether other emerging country governments, such as India and Brazil, assume the role as entrepreneurs through alertness to opportunities, resource exploration and consolidation, and strategic learning. Likewise, the question of whether the research findings can be applied to similar industrial sectors, such as the aviation sector, needs specific analysis.

This study deals with the hot debate that has run for decades relating to the role of the state. It shows that the market does not function by itself; it needs a state. The state needs to create certain conditions so that the economy can flourish. What are the implications of the "entrepreneurial state" in HSR technology development from a practical perspective? First, the infrastructure and other physical conditions are not the only conditions or goals of the state in terms of economic development. Rather, institutional and technology innovations and advancement are as important as the other aspects are. Second, in the face of a global economy, indigenous innovations have gone beyond national borders. The government needs to take advantage of global innovative resources continuously. The Chinese government has proactively participated in the recent outward technology exploration, which is an innovative action that has enriched the channels for using global innovative resources. The Chinese government needs to stay alert to emerging opportunities and explore other innovative approaches for achieving indigenous innovation, since even a little slack in this area would lead to negative outcomes in this more competitive world. Last but not least, the entrepreneurial state should build a responsible and positive national image in the international political and business arenas, and establish good international relations with both developed and developing economy states. By doing so, it would be conducive for China, as China could integrate more fully into the global innovative system, and both explore and exploit the global innovative resources to build China's innovation-based economy further.

CHAPTER 3

The Financing of Chinese Outbound Merger and Acquisitions: Is There a Distortion between State-Owned Enterprises and Privately Owned Enterprises?

This chapter offers novel theoretical and empirical insights into the financing of China's outbound mergers and acquisitions (M&As). We examine whether the financing of Chinese outbound M&As is distorted between state-owned enterprises (SOEs) and privately owned enterprises (POEs). We conduct an empirical study using a dataset of 224 outbound M&A deals. We find that SOEs enjoy a higher level of financing capacity in terms of debt and equity compared with POEs, although SOEs demonstrate lower stock performance, which implies that there are financing distortions in Chinese outbound M&As. Furthermore, we find that state ownership compensates for the poor M&A performance of SOEs through positively moderating the effect of debt financing, which leads to a "fictional" prosperity for SOEs. This result denies our theoretical prediction that builds on a Western theory concerning the disciplining function of debt financing on firm value; it provides evidence that the positive effect of debt financing in Chinese outbound M&As is derived from financing discrimination.

3.1 Introduction

Despite the recent reforms in China's financial system, financing discrimination still exists at all levels of formal finance (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2010; Berger, Hasan, & Zhou, 2009). China's financial system is dominated by a large banking sector, which in turn is dominated by four large state-owned banks (Allen, Qian, & Qian, 2007). These banks take into consideration not only firm-specific economic and financial factors when lending, but also political objectives and the ownership of firms (Firth, Lin, Liu, & Wong, 2009; Firth, Lin, & Wong, 2008). State-owned enterprises (SOEs) receive a disproportionately large share of credit in the form of bank loans compared with privately owned enterprises (POEs) (Brandt & Li, 2003; Cull & Xu, 2005; Ruan & Xiang, 2013). An important financial market, the corporate bond market, remains small in China. The tight regulation over issuance approvals directly brings about the underdevelopment of the corporate bond market (Pessarossi & Weill, 2013). A high threshold of issuance qualification opens the door for pillar SOEs to issue bonds and shuts out a great number of POEs (Gu, 2012). Establishing stock exchanges is seen as a landmark towards the professionalization of China's financial system. However, initially, not many POEs were listed on the Chinese stock exchanges. China's stock market is "largely a vehicle for privatization by the government", rather than a market for capital raising by firms with growth opportunities (Ayyagari et al., 2010, p. 3053). Although it is legally possible for POEs to go public, the process of becoming publicly traded is time-consuming and bureaucratic (Allen, Qian, & Qian, 2005).

A growing literature addresses the link between ownership and the financing decisions of Chinese firms. Due to the financing patronage derived from the shared state ownership of SOEs and Chinese financial institutions (Lim, Chai, Zhao, & Lim, 2012; Tian & Estrin, 2007), the financing cost of SOEs is lower compared with POEs (Hale & Long, 2010; Sapienza, 2004). Consequently, given other factors, SOEs and POEs have similar financial ratios except that SOEs are more leveraged than POEs are. To overcome the discrimination, POEs have to resort to other sources of finance. Internal financing, which means POEs use their retained earnings to invest in new projects, has been the first considered financing source (Hale & Long, 2010). Besides, large-sized POEs try to obtain loans from foreign banks, while small- or medium-sized POEs depend more on informal channels (Cull, Xu, & Zhu, 2009; Ge & Qiu, 2007). In addition to the financing decisions, prior studies address the effect of state ownership on firm value from the perspectives of financial advantage versus disadvantage, respectively. The results, however, are not conclusive. Some studies find a positive relation between the financial advantage of SOEs and firm value (e.g. Zhou, Guo, Hua, & Doukas, 2015), while others show that capital-rich SOEs invest in value-destroying prestige projects (e.g. Masulis, Wang, & Xie, 2007).

Despite various analyses concerning the financing discrimination within China, limited attention has been paid to its influence on Chinese firms' cross-border activities. In fact, the state-owned banks have been promoting specific types of outbound foreign direct investment (OFDI) by offering loans with preferential terms from the very beginning of the "go-global" strategy (Cai, 1999). A special loan programme has been established by the Export and Import Bank of China to finance SOEs' OFDI (Schüller & Turner, 2005). Although the financing patronage has prompted a large number of SOEs to engage in OFDI, prior studies claim that it may lead to wasteful investments and less economic prosperity for China in the long term (Morck, Yeung, & Zhao, 2008). In short, a salient problem in China is the financing distortion, which means that the financial resources are distortedly allocated to SOEs instead of to China's most efficient POEs (Guariglia & Poncet, 2008).

The support for this claim related to financing distortion, however, is based on anecdotal evidence. Little research has quantitatively addressed the issue of whether financing distortion indeed exits among new Chinese global players. Therefore, we attempt to fill this research gap. Furthermore, although debt is the major external financing source for Chinese global players (China Council for the Promotion of International Trade, 2014; Gu, 2012), prior studies concerning Chinese OFDI mainly regard debt financing as a control factor that exists behind the scenes. In this study, we empirically test to what extent state ownership affects the power of debt financing in terms of Chinese OFDI.

In addition, most studies do not look at the differences between the different routes of OFDI, such as green-field investments, or mergers and acquisitions (M&As) (Lu, Liu, & Wang, 2011). The issue gains increased relevance due to the remarkable growth in the scale of Chinese outbound M&As in the past decade. While a number of important green-field investments have taken place, an important feature of China's OFDI is a trend towards more outbound M&As. The value of outbound M&As was only 3 billion US dollars in 2004. It reached a peak in 2008 in spite of the global financial crisis, accounting for 54% of the total value of China's OFDI, with an amount of 30.2 billion. In 2013, Chinese firms' direct outbound M&As reached 33.79 billion[3], accounting for 31.3% of China's total OFDI (Ministry of Commerce of China, 2014). Notably, the value of outbound M&As has increased tenfold in the past decade.

The purpose of this study is to contribute to the emerging knowledge on outbound M&As by Chinese firms. Specific attention is given to the financing issues related to ownership diversity. The ownership diversity of Chinese firms may have implications for the extent to which their outbound M&As present heterogeneous financing decisions (Child & Marinova, 2014). The remainder of this chapter proceeds as follows. Section 3.2 develops the hypotheses. Section 3.3 outlines the data and methodology. Section 3.4 describes the empirical results. We discuss the theoretical and managerial implications in Section 3.5, before drawing a conclusion in Section 3.6.

3.2 Hypotheses Development

3.2.1 Financing decisions of outbound M&As

Since its launch, the "go-global" strategy has been encouraging Chinese SOEs to improve their international competitiveness and establish international champions (Child & Rodrigues, 2005; Morck et al., 2008). In 2004, the "Outbound Catalogue" was issued for the first time, in which the government lists the preferred host countries and industries for Chinese firms to invest in (Voss, Buckley, & Cross, 2008). Meanwhile, the Chinese government has appointed 22 SOEs to receive fixed subsidies annually to build competitive multinationals (Deng, 2007). In particular, China is the only country

[3] Direct outbound M&As refer to domestic investors or their overseas firms' M&As, which are financed by domestic investors' own funds and domestic bank loans. Foreign loans guaranteed by domestic investors are excluded.

in Asia that not only encourages OFDI, but specifically promotes outbound M&As (Deng, 2007). The financial support from the Chinese government has made outbound M&As a common strategy towards internationalization (Warner, Ng, & Xu, 2004).

Considering this institutional background, it is not surprising that SOEs and POEs have different patterns of financing decisions concerning Chinese outbound M&As. First, SOEs have better access to loans from the state-owned banks compared with POEs. Besides, a large part of SOEs' M&As has been funded through raising capital via primary offerings (Hong & Sun, 2006). Prior literature indicates that Chinese SOEs are particularly dividend-averse; over half of all SOEs pay no dividends to shareholders. As such, SOEs are likely to raise equity for their overseas investments instead of making dividend payments (Lim et al., 2012; Morck et al., 2008). By contrast, raising funds for M&As is much more difficult for POEs. This is attributed to the difficulty in accessing loans and the time-consuming process for obtaining the authorization to either go public or issue additional stock in the Chinese stock market. Given the firm size, transaction scale, limited financing channels and other factors, POEs would thus be forced to use internally generated cash to pay for their M&As. Thus, regarding the financing sources, we hypothesize that:

H1a: SOEs are more likely to use debt to finance M&As compared with POEs.

H1b: SOEs are more likely to use stock to finance M&As compared with POEs.

H1c: POEs are more likely to use internally generated cash to finance M&As compared with SOEs.

In addition to the financing sources, cash payment may be a good option for SOEs. This is because SOEs have easier access to external financing sources in the forms of debt and stock. Meanwhile, offering stock directly to acquirees would change the ownership structure of SOEs and dilute the control of the state by introducing foreign shareholders (Amihud, Lev, & Travlos, 1990; Chen, Huang, & Chen, 2009). This seems undesirable to the state, thus SOEs and the state would use stock payment in a cautious manner. Considering these arguments, it makes cash payment attractive and practical for SOEs. Stock payment, by contrast, can help POEs circumvent the financing discrimination and enable them to become active on the international M&A market. Thus, regarding the payment method of financing, we hypothesize that:

H1d: SOEs are more likely to use cash to pay for M&As compared with POEs.

3.2.2 Financing distortions of outbound M&As

These patterns alone cannot explain the financing distortions. As mentioned previously, only when SOEs underperform in comparison to POEs in outbound M&As but enjoy an easy financing environment is there an indication of financing distortion (Guariglia & Poncet, 2008; Morck et al., 2008).

However, the ownership effect is of a multifaceted nature. With respect to state ownership, on the one hand, it may play a negative role in outbound M&As. Owned by the state, SOEs inevitably assume a political mission conferred by the state (Cui & Jiang, 2012; Luo & Tung, 2007). Consequently, SOEs sometimes carry non-commercial objectives, such as investing in projects with highly strategic value for the state but with less or little financial value (Deng, 2009). Meanwhile, the management structure in SOEs is highly hierarchical, which is inconsistent with the flat organizational structure and management style of acquirees in developed economies (DEs), in particular (Li, 2013). This, to some degree, creates difficulties in post-acquisition integration phase. Over time, a perception of “value-destroying” M&As by Chinese SOEs could be established. Consequently, state ownership would become an ownership disadvantage that could increase the likelihood of a negative performance. On the other hand, state ownership positively contributes to outbound M&As. SOEs have engaged in international collaboration in various forms of inward foreign direct investment since the 1980s and have accumulated professional expertise and valuable experience (Luo, Zhao, Wang, & Xi, 2011). These intangible assets can be transferred to an ownership advantage that has a positive effect on the post-M&A performance (Buckley et al., 2007).

Likewise, private ownership has twofold effects on outbound M&As. On the one hand, private ownership exerts a positive role. Simply because outbound M&As by POEs are perceived to be independent investment activities, POEs face less resistance from host countries. In addition, POEs are relatively more flexible in making decisions and taking action. This is beneficial for the intricate cross-border and cross-culture management.

Thus, private ownership would become an advantage and could be conducive for post-acquisition integration. On the other hand, a lack of experience would become a disadvantage for POEs' cross-border M&As, which would negatively affect performance. Taking into account the complexity of the ownership effect, we hypothesize that:

H2: The financing of Chinese outbound M&As is distorted when SOEs underperform in comparison to POEs.

3.2.3 Debt financing and performance of outbound M&As

Debt financing has proved to be vital to the high-performing M&As in Western markets (Martynova & Renneboog, 2009; Tuch & O'Sullivan, 2007). This is due to the strong disciplining effect of debt financing. The risk of defaulting on the debt and the direct influence of the bank on the financing of the firms motivate the management of the firm to invest in value-creating activities. In China, state ownership may diminish this disciplining effect. We explain this by using the formula of the net present value (*NPV*) of investments (Berk & DeMarzo, 2007). *NPV* is the present value of the future cash inflow (*FCF*) created by the investment. *FCFs* are uncertain and differ in the level of risks that are associated with them, thus, they have to be discounted at a required rate of return (r) to arrive at the present value. The formula for *NPV* is:

$$NPV\ (r,t) = \sum_{t=0}^{N} \frac{FCF_t}{(1+r)^t} - initial\ investment \tag{3.1}$$

In practice, r depends on the capital cost of the firm. In a well-functioning financial market, the capital cost of the firm is based on the market risk of the investment, because capital holders supply their money with an interest rate that is in line with the risk associated with the investment. This results in a healthy disciplining relationship between risk and capital cost. However, state ownership may result in a distorted link between the two. As discussed above, SOEs' cost of capital is low due to easier access to and the lower interest rates of loans. As a result, their discount rate is lower than their counterparts with the same risk profile (Cull & Xu, 2005). As such, SOEs can calculate their required investment return or *NPV*, with a lower r, compared with the market rate that is normally associated with the risk of the investment, thus it contributes to a higher *NPV* for a comparable investment:

$$\uparrow NPV\ (r,t) = \sum_{t=0}^{N} \frac{FCF_t}{(1+\downarrow r_{SOE})^t} - initial\ investment \tag{3.2}$$

This leads to two potential behaviours of SOEs. First, SOEs can bid at a higher price for M&As to increase the possibility of winning the bid. Of course, this does not necessarily have a negative effect, as the higher acquisition price can be compensated for with a lower capital cost of debt. However, the debt is being wasted as it could have been used for other value-creating investments. Second, SOEs have incentives to invest in risky projects. Prior research shows that cash-rich firms are more likely to invest in risky M&As that may turn out to be value-destroying (Gao, 2011; Harford, 1999). A typical high-risk investment is diversifying M&As. Since it is harder to create synergies when the activities of the acquiree and the acquirer are unmatched, this type of M&A is more risky than related M&As (Berger & Ofek, 1995; Boateng & Bi, 2010; Ma, Pagán, & Chu, 2009). The low cost of debt makes it possible for SOEs to pursue this kind of investment when a normal cost would make it problematic. In short, the low cost of debt financing enables SOEs to either overpay for the acquirees or be keen on high-risk investments.

By contrast, POEs may face a normal market-based cost of capital, which is used as a market discount rate, resulting in a market-based *NPV*, which is lower compared to the *NPV* calculated by SOEs. What is even worse is that POEs have less channels to raise funds and so their cost of capital becomes higher compared with SOEs. Thus, POEs have a higher discount rate in calculating their return on investment. Given these factors, M&As that could have had a normal *NPV* with a normal discount rate now have a lower *NPV*:

$$\downarrow NPV(r,t) = \sum_{t=0}^{N} \frac{FCF_t}{(1+\uparrow r_{POE})^t} - initial\ investment \tag{3.3}$$

Facing this, POEs are likely to take one of two possible actions. One possible action is that POEs might bid at a lower price for M&As than their comparable international firms would do. The other action is to take lower risks and carefully select a project with stable profitability in the future. Although POEs win fewer bids because of the lower bid price, once POEs win the bids, it means that they do find investments that are more likely to be profitable. In short, the high cost of debt financing drives POEs to either underpay for the acquirees or select low-risk investments. Together, it results in the following hypothesis:

H3: State ownership negatively moderates (diminishes) the disciplining effect of debt financing on an acquirer's outbound M&A performance.

3.3 Research Design and Methodology

3.3.1 Sample selection and data collection

The data on Chinese outbound M&As were collected from *Thomson One* and *Zephyr*, two leading databases consisting of deal information on M&A deals, using the following search criteria: (1) The acquirer is Chinese and the acquiree is non-Chinese; (2) The M&A deal is completed during the period from 2000 to 2013; and (3) The acquirer is listed on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange. This resulted in a data set of 422 deals. Then the following deals were excluded from further analysis (Chen & Young, 2010; Zhou et al., 2015): (1) Either the acquirer or the acquiree belongs to the financial sector; (2) The acquirer has less than 100 trading days before the acquisition announcement and one-year performance afterward; and (3) The deals are from acquirers that already have an M&A deal in the same year. In addition, we removed the duplicate deals in the two databases. This resulted in a final set of 224 deals. Table 3.1 presents the industry and year distribution of Chinese outbound M&As, respectively.

The independent variables are defined as follows. For variables concerning state ownership, we adopt two means to measure it. Following prior studies, *state share* is a continuous variable, measured by the total percentage of equity ownership by the Chinese government and its agencies (Cui & Jiang, 2012; Wang, Hong, Kafouros, & Wright, 2012); *SOE* is a binary variable, coded 1 if the ultimate shareholder of a firm is a government institution, and 0, otherwise (Cui & Jiang, 2012; Li & Xie, 2013). Both data come from the *Shareholder Information Database* of *China Stock Market &*

Accounting Research (CSMAR)[4]. For variables concerning the financing sources, the balance sheet statement is used (Schlingemann, 2004). *Cash financing* refers to newly retained earnings, defined as the change in retained earnings; *stock financing* is the net equity, defined as the change in book equity minus the change in balance sheet retained earnings; and *debt financing* represents the net debt, defined as the change in assets net of the book value of equity. The financing source data are normalized using the total assets of the firm. For the variable concerning the payment method, *cash payment* is adopted as a binary variable, coded 1 if the transaction is paid in cash, and 0, otherwise.

Control variables include the characteristics of acquirer, acquiree and transaction. For the variable concerning the acquirer, *firm size* is used by measuring the total assets of the acquirer in millions of US dollars. For variables concerning the transaction, *transaction size* is adopted by measuring the transaction value in millions of US dollars; *differentiation* is created as a binary variable, coded 1 if the first two-digit Standard Industry Classification (SIC) code of the acquirer is different from that of the acquiree, and 0, otherwise. For variables concerning the acquiree, *location and rule of law* are included. *Location* is a binary variable, coded 1 if the host country is a developed economy, and 0, otherwise. Although DEs are generally considered more efficient in terms of the legal system, the variation in the efficiency is not present. Thus, we use *rule of law* (a continuous variable) as a proxy for the perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular, the quality of contract enforcement, property rights and the courts (Li, Park, & Li, 2003). Chinese firms operating in a more efficient legal environment may differ from their operation at domestic level; therefore, this change will have a negative effect on the acquisition performance.

In addition, *year* and *industry* dummies are included to control for year and industry effects, respectively (Zhou et al., 2015). The independent and control variables are measured over the fiscal year prior to M&As.

[4] The CSMAR Database is a comprehensive database covering data on the Chinese stock market, financial statements and the corporate governance of Chinese listed firms.

Table 3.1 Industry and year distribution of Chinese outbound M&As

Panel A:	
Industry	Number
Agriculture, forestry and fishing	3
Mining	25
Construction	2
Manufacturing	133
Transportation, communications, electric, gas and sanitary services	9
Wholesale trade	2
Retail trade	2
Real estate	33
Services	14
Public administration	1
Total	224

Panel B:															
Year	00	01	02	03	04	05	06	07	08	09	10	11	12	13	Total
Number	1	2	6	6	15	6	13	26	20	28	25	37	34	5	224

3.3.2 Measures of short- and long-term performance

The two dependent variables are the short- and long-term performance of acquirers. For the short-term performance, the *cumulative abnormal returns (CARs)* are measured over 3 days (−1, 1) surrounding the M&A announcement. The following formulas are used to calculate the *CARs* (Chen & Young, 2010; MacKinlay, 1997):

$$AR_{it} = R_{i,t} - R_{m,t} \tag{3.4}$$

where $R_{i,t}$ is the actual return of firm *i* on day *t*, $R_{m,t}$ is the market portfolio return on day *t* and AR_{it} is the abnormal return of firm *i* on day *t*,

$$CAR_i = \sum AR_{it} \tag{3.5}$$

where the abnormal returns within 3 days surrounding the announcement are summed up. The daily stock returns of all firms are retrieved from *Datastream*. For the market return, the daily return of the index of the Shanghai and Shenzhen Stock Exchanges where the firm is listed is used.

For the long-term performance, the *buy-and-hold abnormal returns (BHARs)* are measured over 24 months after the M&A announcement. The following formulas are used to calculate the *BHARs* (Lyon, Barber, & Tsai, 1999):

$$R_m = \prod(1 + R_{m,t}) - 1 \tag{3.6}$$

where $R_{m,t}$ is the market return in month t, R_m is the product of the market returns in the event window,

$$R_i = \prod(1 + R_{i,t}) - 1 \tag{3.7}$$

where $R_{i,t}$ is the stock return in month t, and R_i is the product of the stock return of firm i in the event window,

$$BHAR_i = R_i - R_m \tag{3.8}$$

where the product of the stock returns of firm i are subtracted from the market returns. Again, for the market return, the monthly stock exchange index is used.

3.3.3 Model specification for multiple linear regression

Univariate tests are used for testing H1a–d and H2. To test H3, we run multiple linear regressions as follows:

$$\begin{aligned} CARs\ or\ BHARs = {} & c + \alpha_1 state\ share + \alpha_2 debt\ financing + \alpha_3 debt\ financing \times \\ & state\ share + \beta_1 firm\ size(logged) + \beta_2 transaction\ size(logged) + \\ & \beta_3 differentiation + \beta_4 rule\ of\ law + \beta_5 location + \sum \gamma_i year\ dummy + \\ & \sum \delta_j industry\ dummy \end{aligned} \tag{3.9}$$

where *firm size* is calculated as the logarithm of the acquirer's assets and *transaction size* is calculated as the logarithm of the transaction value divided by the acquirer's total assets.

3.4 Empirical Results

Table 3.2 and Table 3.3 present descriptive statistics and correlations among the variables, respectively. Table 3.2 shows that up to 99% of acquirers use cash as the payment method, suggesting that cash payment is the prominent payment method for Chinese acquirers, regardless of ownership. The financing source variables show that Chinese acquirers mainly use debt to finance their cross-border M&As, followed by internal cash and stock. Concerning the performance, it is clearly indicated that Chinese acquirers as a whole get a slightly positive response in the market over 3 days (at 0.01), while they suffer from negative long-term performance (at −0.04). Moreover, the significant difference in firm size and transaction size, respectively, suggests that a wide range of Chinese firms have engaged in a variety of outbound M&As. Concerning the host country, it also varies widely, suggesting that Chinese outbound M&As have taken place from the least rule-based country with weak institutions to the most rule-based country with strong institutions.

Table 3.3 presents the correlations between the variables. Both *SOE* and *state share* are positively correlated with *debt financing* and *stock financing*, while they are negatively correlated with *CARs* and *BHARs*. Meanwhile, the financing source variables are highly correlated with each other, suggesting that financing sources for an investment are interdependent on each other. Although there are some significant correlations between independent variables, the variance inflation factors (VIFs) of all variables are between 1 and 10, suggesting that multicollinearity is not a concern.

Table 3.2 Descriptive statistics of the variables

Variable	Number	Mean	Maximum	Minimum	Standard Deviation	Source
SOE	224	0.58	1	0	0.50	CSMAR
state share	224	0.26	0.86	0.00	0.30	Ditto
cash payment	204	0.99	1	0	0.12	Thomson One & Zephyr
cash financing	101	0.04	0.51	-0.72	0.13	Datastream
debt financing	101	0.11	1.13	-0.56	0.21	Ditto
stock financing	101	0.02	1.27	-0.85	0.23	Ditto
CARs	120	0.01	0.18	-0.22	0.06	Ditto
BHARs	123	-0.04	1.40	-1.41	0.46	Ditto
firm size	219	99.43	1751.94	0.03	331.31	Ditto
transaction size	158	382.84	6785.46	0.13	1018.05	Thomson One & Zephyr
differentiation	224	0.41	1	0	0.49	Thomson One & Zephyr
rule of law	224	0.56	0.89	0.05	0.32	World Governance Index
location	224	0.73	1	0	0.44	Thomson One & Zephyr

Table 3.3 Correlation matrix between the variables

	1	2	3	4	5	6	7	8	9	10	11	12
1. *SOE*	1											
2. *state share*	0.74***	1										
3. *cash payment*	-0.02	-0.03	1									
4. *cash financing*	0.08	0.14*	-0.08	1								
5. *debt financing*	0.26***	0.38***	0.08	0.35***	1							
6. *stock financing*	0.28***	0.29***	0.01	0.37***	0.31***	1						
7. *CARs*	-0.17**	-0.11	0.08	0.05	0.19**	0.11	1					
8. *BHARs*	-0.13*	-0.11	0.00	0.08	0.23**	0.00	0.12*	1				
9. *firm size*	0.23***	0.46***	0.05	0.14*	0.27***	0.19**	0.01	-0.15**	1			
10. *transaction size*	0.40***	0.22**	-0.18*	0.08	0.26**	0.35***	-0.05	0.05	0.07	1		
11. *differentiation*	0.08	0.11*	-0.07	0.09	0.01	-0.02	-0.02	0.10	-0.06	0.05	1	
12. *rule of law*	-0.07	-0.12**	0.08	-0.15*	-0.06	0.01	-0.07	-0.02	-0.18***	0.00	0.03	1
13. *location*	-0.00	-0.06	-0.07	0.21**	0.00	-0.13*	0.21**	0.07	-0.16***	-0.13	0.12**	0.09*

$^{*}\rho<0.10$, $^{**}\rho<0.05$, and $^{***}\rho<0.01$.

3.4.1 Univariate tests

Table 3.4 presents the financing decisions of Chinese acquirers. H1a–d argue that ownership diversity affects the financing decisions in certain directions. Concerning H1a, SOEs significantly use more debts (at 0.15) than POEs (at 0.04) do, which is in line with H1a. Concerning H1b, SOEs raise a significantly larger amount of funds in the stock market to finance their M&As (at 0.07) than POEs (at −0.06) do. Thus, H1b is supported. Concerning H1c, it shows that SOEs use more internally generated cash to finance their M&As (at 0.05) compared with POEs (at 0.02). Thus, the evidence opposes H1c. These results explicitly show that SOEs enjoy more capital from all sources. In particular, external funding such as debt and stock are major sources for financing SOEs' M&As. However, in spite of the difficulty in access to external finance, debt still forms the most important part of POEs' financing decisions. As for H1d, there is no significant difference in the *cash payment* between SOEs and POEs (at 98% and 99%, respectively). Thus, H1d is rejected.

Table 3.4 Differences in financing between POEs and SOEs

	POEs			SOEs		
	Number	Mean	t-test	Number	Mean	t-test
Panel A: Different from zero						
debt financing	43	0.04**	2.09	58	0.15***	4.85
stock financing	43	-0.06*	-1.56	58	0.07***	2.67
cash financing	43	0.02	0.97	58	0.05***	3.60
cash payment	86	0.99***	85.00	118	0.98***	82.38
Panel B: Difference in mean						
	Mean Difference		t-test			
debt financing	-0.11***		-2.93			
stock financing	-0.13***		-2.90			
cash financing	-0.02		-0.79			
cash payment	0.01		0.31			

$^{*}\rho<0.10$, $^{**}\rho<0.05$, and $^{***}\rho<0.01$.

H2 argues that the financing of M&As is distorted if SOEs underperform in comparison to POEs. Table 3.5 reports the results. Panel A shows that the 3-day *CARs* of POEs is positively significant at 0.02, while that of SOEs is negative at −0.00, though insignificant. By contrast, the 24-month *BHARs* of POEs is insignificantly positive at 0.01, while SOEs have a significantly negative performance at −0.11. The results in Panel B show that SOEs have significantly lower *CARs* and *BHARs* than POEs do (at 0.02 and 0.12, respectively).

Table 3.5 Differences in performance between POEs and SOEs

	POEs			SOEs		
	Number	Mean	t-test	Number	Mean	t-test
Panel A: Different from zero						
CARs	57	0.02^{**}	2.42	63	-0.00	-0.02
BHARs	55	0.01	0.13	68	-0.11^{**}	-1.95
Panel B: Difference in mean						
	Mean Difference		t-test			
CARs	0.02^{**}		1.84			
BHARs	0.12^{*}		1.40			

$^{*}\rho<0.10$, $^{**}\rho<0.05$, and $^{***}\rho<0.01$.

3.4.2 Multiple linear regression

H3 proposes that state ownership weakens the disciplining effect of debt financing on the performance of Chinese acquirers. Table 3.6 presents the results. Model 1 and Model 5 show that *debt financing* has a significantly positive effect on *CARs* and *BHARs* (at 0.07 and 1.77, respectively). Model 2 and Model 6 show that the moderating effect is not only positive, but also stronger than the sole effect of *debt financing* (at 0.47 and 2.21, respectively). This suggests that state ownership enhances the positive effect of debt financing on Chinese firms' performance. Furthermore, we split the full sample into two sub-samples based on POEs and SOEs to see the moderating effect clearer. As shown in Model 3 and Model 7, neither the short-term nor the long-term M&A performance is significantly related to POEs' debt financing. Debt financing

M&As by SOEs, by contrast, enjoys significantly positive *CARs* (at 0.13) and 2-year *BHARs* (at 2.36), as shown in Model 4 and Model 8, respectively. Thus, H3 is rejected.

Table 3.6 Regression on *CARs* and *BHARs*

	Dependent variable: *CARs*				Dependent variable: *BHARs*			
	All sample		POEs	SOEs	All sample		POEs	SOEs
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
Constant	0.04	-0.03	-0.41	0.32	2.86*	2.41	4.36	-1.40
	(0.14)	(0.86)	(0.27)	(0.24)	(1.44)	(1.46)	(2.99)	(2.30)
Control variables								
firm size	0.00	0.01	0.03	-0.02	-0.15**	-0.13*	-0.18	0.04
	(0.01)	(0.01)	(0.02)	(0.01)	(0.07)	(0.07)	(0.17)	(0.11)
transaction size	0.00	0.00	-0.01	0.04**	0.00	-0.01	-0.07	-0.21
	(0.01)	(0.01)	(0.01)	(0.01)	(0.08)	(0.08)	(0.19)	(0.11)
Differentiation	0.02	0.04*	0.08*	0.07	0.12	0.20	-0.01	0.01
	(0.02)	(0.02)	(0.03)	(0.04)	(0.18)	(0.19)	(0.42)	(0.23)
rule of law	-0.00	0.02	0.01	-0.07	-0.06	-0.05	-2.63	-0.43
	(0.04)	(0.04)	(0.08)	(0.07)	(0.41)	(0.40)	(1.37)	(0.45)
location	0.03	0.08	0.05	0.00	-0.21	-0.16	0.13	0.39
	(0.02)	(0.02)	(0.03)	(0.05)	(0.23)	(0.23)	(0.43)	(0.42)
Predicators								
state share	-0.08*	-0.16***			0.50	0.19		
	(0.04)	(0.05)			(0.40)	(0.47)		
debt financing	0.07*	-0.09	-0.12	0.13**	1.77***	1.09	3.65	2.36***
	(0.04)	(0.08)	(0.13)	(0.06)	(0.51)	(0.74)	(2.10)	(0.44)
debt financing × state share		0.47** (0.19)				2.21 (1.77)		
Number	56	56	26	30	51	51	22	29
F-statistics	1.55	1.98	1.67	1.97	1.95	1.98	1.25	3.98
Adjusted R^2	0.21	0.33	0.33	0.42	0.33	0.35	0.16	0.71

$^{*}\rho<0.10$, $^{**}\rho<0.05$, and $^{***}\rho<0.01$ (standard errors in parentheses). Coefficients of *year* and *industry* dummies are omitted.

3.4.3 Robustness checks

The first set of robustness checks are focused on the financing sources. The financing source variables are alternated by the cash flow statement[5] (Schlingemann, 2004). *Cash financing* is defined as the sum of operating income before depreciations, interest expenses, income taxes, and preferred and common dividends; *stock financing* is defined as the cash flow from the sale of common and preferred stock; *debt financing* is the change in the sum of short- and long-term debt financing of the firm. The alternative measures of financing sources lead to similar results in univariate tests for H1a–c. The statistical significances, however, are lower. The second set of robustness checks are focused on the measurement of state ownership. We use a categorical variable – *state control* – as the moderator to test the robustness of the models, coded 2 if the total percentage of equity ownership by the Chinese government exceeds (includes) 50 percent, coded 1 if that percentage is between 0 and 50 percent, and 0, otherwise. The results are consistent with the above results. To explain the moderating effects better, we graphically display the relationships in Figure 3.1. It shows that state ownership significantly moderates debt financing. This is particularly true in the long term, since it is evident that beyond the crossover point, the higher the level of state ownership, the higher the performance of SOEs who use more debt financing.

[5] It is not mandatory to fill in a cash flow statement in China. This results in many missing values, thus, it is used as the secondary financing measurement.

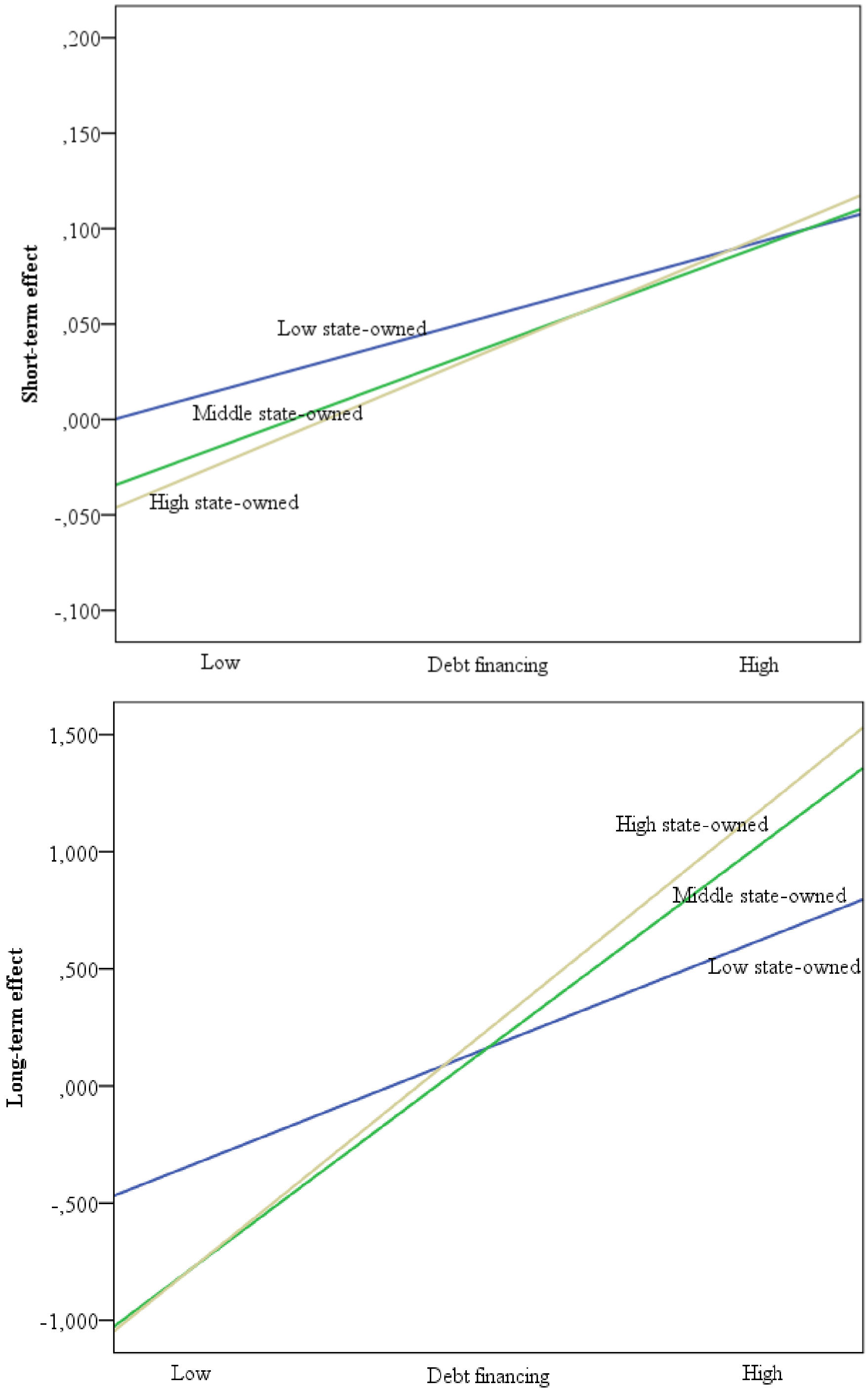

Figure 3.1 Plots of moderating effects between debt financing and state ownership

3.5 Discussion

This study takes a first step towards examining the financing distortion of Chinese outbound M&As. The results of our analysis suggest that besides external debt and stock, SOEs use more internal cash to finance their M&As compared with POEs. Although it goes against the hypothesis, this unexpected result does not deny, but reinforces the existence of financing distortions. The reason behind this is simple. SOEs enjoy financing patronage in obtaining bank loans and accessing financial markets, and have less responsibility to either repay interest or pay dividends to shareholders (Tian & Estrin, 2007). This enables SOEs to keep more retained earnings and drives them to pour the retained earnings into low-returning outbound M&As for empire building or state-defined strategic purposes. By contrast, POEs generally face more stringent financing conditions, forcing them to squeeze their retained earnings for repayment obligations. Consequently, although POEs are more profitable in outbound M&As, the constrained financing capacity limits their investments.

Our analysis suggests that, regardless of ownership, Chinese acquirers overwhelmingly pay cash, with stock payment used in less than 2% of the deals. First, this is a consequence of the underdeveloped financial system in China (Boateng & Bi, 2010). The stock exchanges in mainland China are relatively new, so the fear is that they do not function as a normal capital market. Meanwhile, the procedures for stock-based transactions are more complicated and involve multiple government regulatory approvals. Second, many Chinese firms have not been widely recognized by international investors in terms of both strength and brand popularity, thus, there is great difficulty in adopting direct stock payments.

We proposed that state ownership diminishes the disciplining effect of debt financing on M&A performance. The evidence denies it. At first sight, the findings seem to indicate that state ownership strengthens the disciplining effect of debt financing. However, the story is more subtle. When splitting the samples into SOEs and POEs, the facilitator role of debt financing on performance obtains only in SOEs but not in POEs. This suggests that the prosperity function of debt financing on Chinese outbound M&As may result from the financing discrimination effect instead of the disciplining effect. On the one hand, although the low-cost debt financing of SOEs would have led to problematic investments (as mentioned above), the financing discrimination on debt financing partly compensates for the poor performance of SOEs and makes their investments “fictionally” positive. On the other hand, high-cost debt financing might result in POEs forgoing many investments that would have created positive returns if POEs had had normal capital costs.

This study contributes to the literature in three aspects. First, we empirically explore an understudied area – whether the financing of Chinese outbound M&As is distorted between SOEs and POEs (Morck et al., 2008). Our study confirms that China’s financing of outbound M&As is indeed distorted. Although POEs outperform SOEs in outbound M&As, state ownership enables SOEs to enjoy easy financing situations in terms of internally free cash, external debt and stock. Second, this study shows that the disciplining effect of debt financing does not work in China and therefore needs modification. In the Western literature, debt financing operates as a device to discipline managers and is regarded as an important driver of investment efficiency (Martynova & Renneboog, 2009). Our analysis subverts the theoretical prediction and denies the disciplining function of debt financing in China. Specifically, we capture the moderating effect of state ownership on the strength of debt financing in outbound M&As. Rather than the disciplining effect, the financing discrimination impact drives the positive effect of debt financing on the performance of outbound M&As. Third, the research contributes to the literature of emerging economy outbound M&As by incorporating debt financing, a major financing channel in emerging economies. Prior research on outbound M&As generally considers debt financing as either a homogenous factor or a background feature. We bring debt financing to the foreground and find that debt financing facilitates the performance of Chinese outbound M&As via state ownership. In so doing, it uncovers the heterogeneity of debt financing in an emerging economy’s outbound M&As.

This research provides some policy implications. In recent years, due to strategic and geopolitical reasons, the Chinese government has proactively supported and financed “national champions” to go international. It seems no different from DEs in that the state also plays a role in cross-border M&As. In the case of the European electricity market, for example, the French government stimulates French electricity companies to acquire electricity companies in other European countries, but creates barriers for non-

French electricity companies to acquire French companies, with the same being true for postal services. However, there is little evidence showing that DE governments implement explicit ownership-inclination policies for domestic firms in the non-public utility and non-military sectors. Our evidence shows that ownership-inclination policies generally exist within China in different industrial sectors. On the one hand, the ownership discrimination by the government gives rise to a potential problem, that is, capital allocation distortion. For policy makers, it is of importance and a necessity to support POEs' outbound M&As and offer financing convenience if financing impartiality cannot be achieved in the short term. On the other hand, the contrasting treatments by the Chinese government also bring about the accelerated internationalization of Chinese firms (Wei et al., 2015). SOEs should continue to maintain good connections with the Chinese government in order to leverage the political resources available in their home country and they should be more prudent when competing with their global competitors because of the political assets they possess prior to internationalization. By contrast, POEs need to respond strategically to the discriminatory capital allocation and they should try to reduce the policy uncertainties by affecting policymaking in China. Meanwhile, POEs should be cautious of the development and resource constraints encountered in their home country and look for international expansion opportunities in order to exploit global resources, such as financial resources.

Several limitations may open the road for future research. First, in this study, the specific context is China, which is different from other emerging economies in terms of the economic and political system. This makes it difficult to generalize the findings. Therefore, further research is necessary to make comparisons among different emerging economies. Second, this study mainly focuses on listed firms. These firms only represent some of the Chinese firms that are active in international M&As. Non-listed firms, especially non-listed POEs that play an increasingly important role, are excluded from this research. The recommendation is to take a closer look at the strategies and financing decisions of these non-listed POEs. For example, prior research suggests that building relationships with the government can result in preferential access to loans for POEs (Khwaja & Mian, 2005; Li, Meng, Wang, & Zhou, 2008). Whether this is the case in outbound M&As needs future research. Third, the study only explores the effects from the Chinese side. We expect that the stakeholders outside of China are also affected. For example, the positive effect might be that Chinese capital is injected into Western economies to stimulate economic recovery, while the negative effect might be falsified competition. Thus, it is necessary to examine the effect of financing distortions in China on the host countries. Last but not least, this study merely focuses on the one-way effect of financing distortions on outbound M&As, but the growing outbound M&As affect the degree of Chinese financing distortions as well. Prior research shows that the adverse effects of financing distortions on China's growth have gradually declined over time, since foreign investment alleviates the costs associated with the inefficient banking sector and stimulates the restructuring of the banking sector in China (e.g. Guariglia & Poncet, 2008). Specifically, outbound M&As may play a role in diminishing the impact of potential financing clashes (Alon, Child, Li, & Mcintyre, 2011). Therefore, more insights on the link between China's financial development and outbound M&As should be on the agenda for future research.

3.6 Conclusion

This study offers some novel theoretical and empirical insights into the financing of China's outbound M&As and may be of relevance to other emerging economies. Specifically, we examine to what extent the financing of Chinese outbound M&As is distorted between SOEs and POEs. We find that financing distortion is derived from financing discrimination by showing that, although SOEs generally have a lower performance, they enjoy more financing capacity than POEs do. However, state ownership compensates for the poor performance of SOEs, it positively moderates the effect of debt financing on outbound M&As and leads to a "fictional" prosperity for SOEs.

CHAPTER 4

Legitimization of Chinese Outbound Mergers and Acquisitions: Taking Strategic Actions towards Salient Stakeholders

The purpose of this chapter is to clarify the key stakeholders involved in the legitimization process of Chinese outbound mergers and acquisitions (M&As) and to gain a better understanding of the mechanisms through which Chinese outbound M&As achieve legitimacy. The foundation lies in a combination of stakeholder theory and the institution-based view. Based on a multiple-case study approach and relying on in-depth interviews with top managers in Chinese multinational enterprises (CMNEs), three cases were examined. The chapter finds that different from developed economies (DEs) where real stakeholders are predominant, in China, the institutional investors, the government and officials as stakeholder-watchers and stake-keepers, are more salient in determining M&A legitimacy. Also, although the government plays multiple roles as a stake-keeper, stake-watcher and real stakeholder simultaneously, the multiple roles need to be treated independently in the legitimization process of outbound M&As. CMNEs tend to adopt manipulation, negotiation and adaption towards real stakeholders, stake-watchers and stake-keepers, respectively. This chapter advances the understanding of Chinese outbound M&As and extends the literature concerning the legitimization process and the interactions of the relevant stakeholders. The legitimization process of Chinese outbound M&As subverts some of the Western traditions, such as the rule-based negotiation in DEs based on corporate governance rules and the approval of shareholders.[6]

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[6] The revised version of this chapter was submitted to *Journal of Business Ethics*.

4.1 Introduction

Outbound mergers and acquisitions (M&As) from China have been in full swing over the last decade. From 2004 to 2013, a total value of 191.74 billion US dollars has been involved in terms of outbound M&As; see Figure 4.1. Witnessing the significant growth, researchers have given much attention to the driving forces and motivations of the emerging phenomenon (Child & Rodrigues, 2005; Deng, 2004, 2009; Luo et al., 2010; Morck et al., 2008). It has been widely accepted that the emergence of China's outbound M&As has been driven by Chinese multinational enterprises (CMNEs) exploring competitive advantages (Child & Rodrigues, 2005) and pursuing strategic assets (Deng, 2009), and this has been facilitated by both governmental promotion and institutional escapism (Holtbrügge & Kreppel, 2012; Luo et al., 2010; Milelli, Hay, & Shi, 2010), despite the fact that the regulative and cognitive factors in the target countries significantly impede M&A completion (Rasiah, Gammeltoft, & Jiang, 2010; Zhang & He, 2014; Zhang, Zhou, & Ebbers, 2011).

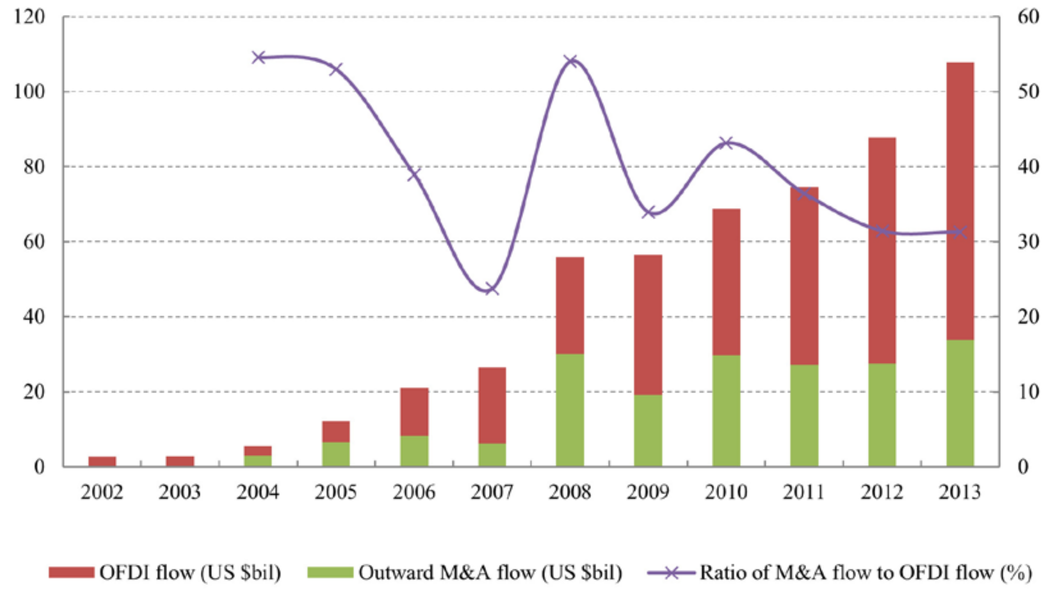

Figure 4.1 Outward M&A flow and OFDI flow from China over time[7]

A key assumption underlying much of the extant research is that outbound M&As have been recognized and adopted as a legitimate approach for internationalization by both

[7] Data source: *Statistical Bulletin of China's Outward Foreign Direct Investment 2013.*

the domestic government and firms (Luo et al., 2010). Although this is a plausible assumption supported by aggregate data and provisions written in the national plan, if we look at the specific cases from a process-oriented perspective, the legitimacy of Chinese outbound M&As is not as simple as a provision written in the law.

Considerable obstacles make the legitimization process of Chinese outbound M&As more complex than suggested in the assumption. The first obstacle is related to a rigid approval system. According to the regulations, overseas investment projects over a certain amount must be submitted to the relevant authorities for “step by step approval, and quota management” (Ministry of Commerce of China, 2009). There are two procedures that Chinese acquiring firms (AFs) have to overcome in the pre-acquisition phase. The first step is related to the pre-approval procedure. The potential AFs have to submit a project report to the government before entering the formal bidding and negotiation process with the target firms (TFs). After receiving the project report, the government issues a confirmation letter to the potential AFs if the project meets the requirements. This pre-approval procedure aims to avoid risks in outward foreign direct investment (OFDI) and the competition between domestic companies. Besides that, the firms have to endure the scrutiny by multiple agencies from provincial government branches to central government. Figure 4.2 shows the major Chinese government authorities involved in OFDI. For privately owned enterprises (POEs) wishing to invest abroad, three Chinese government authorities are involved in the scrutiny process: the SDRC, MOFCOM and SAFE. China’s state-owned enterprises (SOEs) are supervised and closely monitored by the SASAC instead of the SDRC. Once the AF reaches a formal agreement with the TF, it has to report to these agencies once again. From the government’s perspective, such a system may ensure that all the investments correspond closely with the strategic geopolitical objectives. While from the firm’s perspective, it leads to many problems. For instance, the scrutiny criteria are not clearly defined or made public to the AFs. This regulatory arrangement increases the difficulty of potential AFs in carrying out cross-border M&As. The second obstacle is associated with the financing of outbound M&As. Outbound M&As require financial support to succeed. However, Chinese AFs are subject to financial restrictions in terms of the amount of domestic loans and foreign exchange. The restricted financial support limits the financing capacity of Chinese AFs in outbound M&As, making them miss some opportunities. Third, a lack of effective intermediaries increases acquisition risks. For instance, investment banks play an indispensable role in overseas M&As in terms of the identification of acquisition strategies, the negotiations, public relations and the financing arrangements. Most Chinese investment companies, however, remain on the side-lines, partly due to a lack of experience.

The extant research rarely touches upon the legitimization process of Chinese outbound M&As nor does it systematically analyse the critical stakeholders involved in this process (Sun & Vinig, 2013). Two challenges cause such disregard. First, access to information is difficult. Information regarding stakeholders and their interaction in China is sensitive, resulting in the inconvenience of information disclosure, either about or from the stakeholders. Second, prior research on Chinese outbound M&As is primarily from the Western perspective, making it inappropriate when explaining this emerging issue (Alon et al., 2011). In addition, the extant research has paid relatively little attention to the actions which AFs take to obtain legitimacy for their M&A activities.

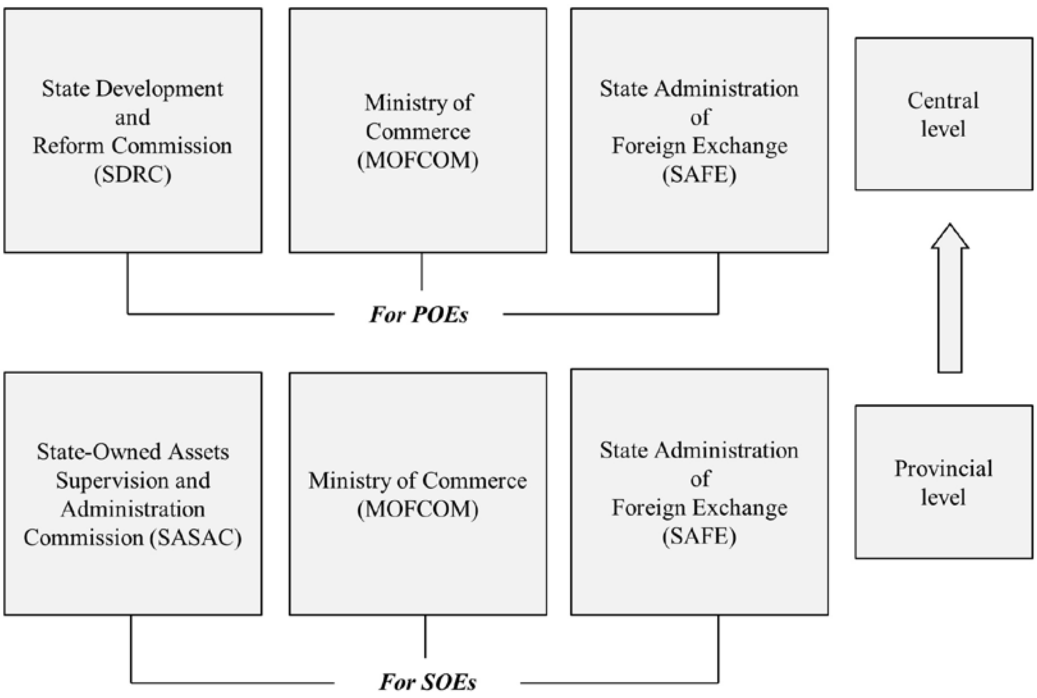

Figure 4.2 The major Chinese regulation departments involved in OFDI

By linking stakeholder and institutional literature on M&A legitimization, we hope to gain a better understanding of the mechanisms through which Chinese outbound M&As achieve legitimacy. Stakeholder theory argues that the legitimacy of an organization depends on the stakeholders' collective endorsement, and thus strategic management of the key stakeholders is a prerequisite for organizational legitimacy (Pfeffer & Salancik, 1978; Suchman, 1995). Likewise, an investment is likely to become legitimate if key stakeholders support it. Stakeholder researchers identify all the possible stakeholders relevant to a firm and develop a stakeholder model to reveal the relationship of these stakeholders (e.g. Fassin, 2008; Harrison & John, 1996; Savage, Nix, Whitehead, & Blair, 1991), which provides a foundation from which to identify the stakeholders in China's outbound M&As. The institution-based view highlights the significance of institutions on organizations and stakeholders. Domestic stakeholders involved in outbound M&As are more likely to have their specific functions and interests that reflect the uniqueness of China's institutional environment. Meanwhile, the institution-based view emphasizes the importance of strategic choices for a firm's survival and for it being able to maintain itself as a going concern in emerging economies (e.g. Peng & Heath, 1996). Specifically, we attempt to address the following questions: (1) who are the critical domestic stakeholders involved in the legitimacy of Chinese outbound M&As and what are their functions and interests? (2) What kinds of strategic actions do Chinese AFs take towards these stakeholders and what are the results?

Theoretically, we aim to enrich the M&A literature by extending it to the legitimacy of emerging economy outbound M&As. Managerially, we remind potential AFs from emerging economies of an un-neglected consideration, that is, managing salient domestic stakeholders. This chapter is organized as follows. The next section provides the literature review. Section 4.3 discusses the research method. Section 4.4 analyses the cases and shows the empirical results. The chapter ends with a discussion and conclusion in Section 4.5.

4.2 Literature Review

4.2.1 Stakeholders and M&As

A stakeholder is a “group or individual who can affect or can be affected by the achievement of a firm’s objective” (Freeman, 1984, p. 46). A basic stakeholder system comprises shareholders, employees, customers, investors, suppliers, government regulators, a community, special interest groups, media and the environment (Clarkson, 1995; Freeman, 1984). According to Fassin (2009), stakeholders can be classified into three groups: (1) real stakeholders, who have a positive and loyal interest because of the possession of a real stake in the firm; (2) stake-watchers, who have no real stake in the firm but maintain the interest of real stakeholders; and (3) stake-keepers, who do not have a stake but can exert influence. Stakeholders have a dynamic attribute since the environment of a firm varies over time (Winn, 2001). Even at a single time point, a single stakeholder may have multiple roles (Fassin, 2008). Therefore, stakeholder theory includes not only the financial claimants or the stakeholders who are dependent on the corporate governance system, but involves a broader sense of stakeholders.

Stakeholder theory is about managing potential conflicts and the diverging interests of stakeholders in order to gain organizational legitimacy (Frooman, 1999; Phillips, 1997). Legitimacy relies heavily on the congruence between the behaviours of the firm and the beliefs and interests of the key stakeholders (Dowling & Pfeffer, 1975). In other words, legitimacy is achieved when the key stakeholders endorse and support a firm’s goals and activities collectively, yet independent of a particular stakeholder (Pfeffer & Salancik, 1978), because the deviation draws no collective disapproval (Suchman, 1995). As newly overseas M&A players, the legitimacy of outbound M&As endorsed by domestic stakeholders is the prerequisite for Chinese AFs to undertake overseas transactions (Deng, 2009), thus, stakeholder identification and management is of critical importance (Donaldson & Preston, 1995; Frooman, 1999).

4.2.2 Stakeholders, strategic actions and an institution-based view

Institutions, having “rules of the game” with formal and informal constraints (North, 1990), profoundly affect stakeholders and organizations that are embedded in the institutional environment (Oliver, 1991) through “regulative, normative and cognitive” pillars (Scott, 1995). Due to such embeddedness, a stakeholder inevitably presents the characteristics stemming from the specific institutional environment (Savage et al., 1991; Winn, 2001). As a result, the power, and thus the priority of the stakeholders (Mitchell, Agle, & Wood, 1997), and the function of the stakeholders and thus the structure of the stakeholder system differ in diverse institutional settings (Apostol & Näsi, 2011).

An institution-based view on business strategy is about making strategic choices as an outcome of the dynamic interaction between institutions and organizations (Peng, 2002). Instead of passively adjusting themselves to the institutional environment, the institution-based view argues that firms can adopt a proactive approach and take strategic actions to affect organizational outcomes, such as to achieve legitimacy, and obtain key resources and sustainable competitive advantages (Oliver, 1997; Peng, 2002). Derived from the degree of bi-directional dependence between the stakeholders and the firms (Frooman, 1999), there are three types of strategic actions: manipulation, negotiation and adaption.

Manipulation means “the purposeful and opportunistic attempt to co-opt, influence, or control institutional pressures and evaluations” (Oliver, 1991, p. 157). Firms tend to win the consistent commitment of inside actors through manipulation (Jing & McDermott, 2013).

Negotiation refers to a strategic action that builds networks with involved parties through developing informal relations such as friendship and trust, and building formal relations such as strategic alliances, so as to “develop tacit agreements and arrangements that enable them to carry out their work” (Day & Day, 1977, p. 130). Using negotiation, conflicts may be neutralized; the divergent stakeholders tend to collaborate and act collectively rather than independently.

Adaptation is derived from an organism's evolution to the external environment in order to survive and thrive, and is defined as an action "to fit the firm more particularly for existence under the conditions of its changing environment" (Chakravarthy, 1982, p. 35). By taking an adaptation action, for example, being innovative in their operations or pursuing greater resource productivity (Porter & Linde, 1995), the firms may be able to reduce the burden of compliance to institutional constraints and protect themselves from threats, even though the institutional constraints are applied strictly (Child, 1972).

Prior literature from an institution-based view primarily focuses on studying the growth strategy of local firms or foreign multinationals in China (Hoskisson, Eden, Lau, & Wright, 2000; Peng & Heath, 1996; Peng, 2002), yet there is a poor understanding regarding the strategic actions of CMNEs (Wang, Hong, Kafouros, & Boateng, 2012).

4.3 Research Method

The case study method is appropriate for exploring the "why" and "how" questions behind an emerging phenomenon (Yin, 1994). In this study, a multiple-case study approach allows us to explore the process of Chinese AFs winning legitimacy for outbound M&As.

4.3.1 Case selection

We selected three completed outbound acquisitions, coded A, B and C, respectively. The AFs in these cases have different ownership and are domestic leading firms in their industrial sectors. Such a selection strategy is appropriate for comparison purposes. Table 4.1 provides the overview of the AFs. For descriptive convenience, we coded the AFs and their TFs in the three cases as AF-A, TF-A, AF-B, TF-B, AF-C and TF-C, respectively.

Table 4.1 Overview of the AFs

Case	A	B	C
AF	AF-A	AF-B	AF-C
Founding year	1992	1994	2002
Ownership	provincially state-owned	privately owned	centrally state-owned
Revenue (billion RMB in 2012)	48.07	46.83	0.70
Core business	R&D, manufacturing of advanced technologies and equipment	R&D, manufacturing and sales of engineering machinery	R&D and production of information service

4.3.2 Data collection

We collected data from two sources. The primary data were obtained through in-depth interviews from May to October 2013. We interviewed top managers who directly participated in the cases. Table 4.2 overviews the information regarding the respondents. We developed a set of open-ended questions covering four aspects: (1) the personal background of respondents, (2) the history and internationalization overview of the firm, (3) details of the transaction process, and (4) interaction with stakeholders (who and how). Interviews were also conducted with official regulators, intermediaries and others whose informed views were of potential significance in Chinese outbound M&As. Respondents had their anonymity preserved. We also collected secondary data from the internet, including corporate annual reports, media news and important speeches made by founders, Chairmen or CEOs of the AFs. The diverse sources allowed us to triangulate our findings and increased the validity of our interpretations (Eisenhardt, 1989).

Table 4.2 Information regarding the respondents

	Respondent	Date (dd/mm/yyyy)	Contact method
AF-A	Head, Dept. of Overseas Risk Management	22/07/2013	Telephone
	Head, Dept. of Overseas Business	22/07/2013	Telephone
AF-B	Regional General Manager	24/07/2013	Telephone
	Collaborator	24/07/2013	Telephone
AF-C	Manager, Dept. of Investment Management	27/05/2013	Telephone
	Manager, Dept. of Overseas Investment	30/05/2013	Telephone

4.3.3 Data analysis

We conducted both intra-case analysis and inter-case analysis based on replication logic (Yin, 1994). Intra-case analysis followed the logic of “stakeholders→strategic actions→outcomes” in order to unfold the legitimization process in each case. Inter-case analysis was used across the cases to verify the conceptual framework. To analyse the data, we conducted two coding steps (Pratt & Foreman, 2000). In the first step, we coded relevant information and generated first-order constructs based on the interviews. In the second step, we synthesized these factors into second-order themes that were more abstract. Table 4.3 shows the quotations and coded constructs from interviews.

We need to illustrate our tactics when coding legitimacy. We coded the final outcome of the collective stakeholders as “legitimate” or “not legitimate” (Pfeffer & Salancik, 1978). We also coded the attitude of individual stakeholders: “support” means that a stakeholder supports the firm’s M&A proposals, “oppose” refers to the opposition by a stakeholder, “absent” means that a stakeholder did not participate in the M&A project and “NA” indicates that the stakeholder is not mentioned in the cases. By so doing, we can observe the relationship between the attitude of an individual stakeholder and their collective effect on legitimacy.

Table 4.3 The stakeholders, strategic actions and legitimacy towards Chinese outward M&As

Exemplifying quote and first-order construct	Second-order theme
Respond quickly, prompt decision-making and effortful, supportive *This management team is highly efficient and quickly responded, taking full responsibility for the acquisition.* (Interviewee AF-A) *The success of the acquisition is attributed to the prompt decision-making and the full efforts of the founders.* (Interviewee AF-B) *We are the decision-making and implementing agency, our interest is succeeding in implementing our proposed strategy and solving the problem for the firm.* (Interviewee AF-C)	Self-manipulation of real stakeholders
Build personal relationships, meet face-to-face with government officials *We would not have such a great achievement without government support.* (Interviewee AF-A) *The negotiation helped to build a better personal relationship with the government officials, which is good to speed up the approval progress and reduce the uncertainty.* (Interviewee AF-B) *We explained to the officials face-to-face about the prospects of the project and how it conforms to the national policy. It is more likely to gain a favourable impression from these officials, and build a relationship of mutual trust in this way.* (Interviewee AF-C)	Relation-building negotiation with stake-watchers
Present business prosperity *As a Chinese firm, we do not have much experience in outbound acquisitions. That is why we invited them (joint investors) to join the acquisition*. (Interviewee AF-A) *The policy bank requires business returns in certain business scopes as well. We showed our business model, management model, risk-prevention model and debt-repayment scheme in order to prove the feasibility and the prospects of the project.* (Interviewee AF-A)	Business-based negotiation with stake-watchers
Escape from domestic regulation (uncertainty, absence, threat) *We are surrounded by a huge uncertainty concerning the government approval system.* (Interviewee AF-A) *The absence of the regulatory agencies will adversely affect outbound M&As.* (Interviewee AF-C) *The SPV is conducive to our future capital operation in Hong Kong's capital market, where the accountability system is more developed.* (Interviewee AF-A)	Adaptation to stake-keepers
Fait accompli *We have sufficient strength to engage in overseas acquisition, and the investment per se is consistent with the national strategy. Despite the violation of the approval procedure, the move does not conflict with the national strategy. Meanwhile, we (AF-B and TF-B) come to the acquisition agreement according to the free will of both sides and the international business rules. If the bidding application is rejected by the regulators, the "market economy" of China will inevitably be questioned by the international community.* (Interviewee AF-B)	

Table 4.3 (*Continued*)

Exemplifying quote and first-order construct	Second-order theme
Comprehends (the regulations) and operates aptly *When we drew up the application document, the content closely relied on the national industry policy. We adequately explained our motives for advanced technology and talents. In addition, the advantages such as our sufficient funds, the prospect for returns, and our excellent reputation as a publicly listed firm, were fully described in the document. As such, the bidding application is more likely to be approved.* (Interviewee AF-C) *State ownership becomes a barrier rather than a convenience in the acquisition, since we do not get any help from, but have to report to the government in order to get the approval for acquisition.* (Interviewee AF-C)	Adaptation to stake-keepers
Collective endorsement *It is the joint commitment of internal stakeholders, the active negotiation with government officials and intermediary agencies and the apt adaptation to the policies, which will lead to the successful completion of the outbound acquisition project.* (Interviewee AF-C)	Legitimacy

4.4 Empirical Results

4.4.1 Domestic stakeholders

Real stakeholders Traditionally, top managers are at the centre of the stakeholder system (Fassin, 2009). Top managers are special real stakeholders in the firm, are the action agents of strategic actions, can tailor their tactics to different stakeholders (Jing & McDermott, 2013) and resolve their conflicting interests (Clarkson, 1995). Top managers have great authority over firms in China (Deng, 2009; Tsui, Schoonhoven, Meyer, Lau, & Milkovich, 2004). In Chinese outbound M&As, top managers represent, as a core strategy, the formulators, decision-makers and implementers who analyse the firm’s internal and external environment and develop strategic objectives (Rui & Yip, 2008). As a reward, they may achieve career promotions, respect and pecuniary bonuses (Morck et al., 2008).

In each case, both the board and the management play a significant role. In AF-A, the Board Chairman and CEO was the same person, who played the most important role. Such an arrangement enables a high degree of unity with regard to the interests of the board and the management. Similarly, the main founders of AF-B, who have been board members and top managers, play a key part in the acquisition. In AF-C, the senior management and the board are at the centre of decision-making and the operational aspects of the acquisition.

Despite the similarity, there are discrepancies in the configurations between Western and Chinese real stakeholders. An important real stakeholder in Chinese outbound M&As is the Chinese government, since the government possesses interests in SOEs, as in Cases A and C. As a state-owned firm, the local government is the largest and ultimate owner in AF-A. As a state-holding firm, the parent company of AF-C is directly owned by the central government. In this sense, the central government is the ultimate owner of AF-C. The government monitors the investment decisions in order to guarantee their ownership. Such an influence is achieved through their representatives who are board members in the firm (Morck et al., 2008).

Stake-watchers With regard to stake-watchers, institutional investors, intermediaries, government service agencies and competitors were confirmed to be important by the respondents. In Case A, AF-A invited private equity firms to join the acquisition. In Case B, AF-B invited its long-term partner, a domestic private equity firm, to be the co-acquirer.

The government plays an important role as a stake-watcher, offering taxation incentives, infrastructure and land use for economic activities. When the benefits, such as rapid GDP growth, employment and tax revenue increases are particularly large in certain industrial sectors and firms, the government prefers to offer these sectors and firms exclusive favours, such as low-interest loans and land use at low prices.

In Case A, the government facilitates the acquisition of TF-A. For instance, the local governmental policies concerning tax deduction and exemption in R&D, production, sales and exports greatly contribute to AF-A's rapid expansion. In return, the growth of this leading SOE significantly promotes the development of the regional economy and China's machinery industry. Similarly to Case A, the local government offers tax deductions, exemptions and revenue subsidies to AF-B. In addition, one of the three state-owned policy banks[8] in China provided financing guarantees to back up AF-A's

[8] The three policy banks in China include the Agricultural Development Bank of China (ADBC), China Development Bank (CDB) and the Export–Import Bank of China (EIBC). These banks are responsible for

financing, which is the largest financing guarantee the bank has ever offered. Similarly, AF-B had strong financing strength in the form of bank credit provided by a policy bank.

Notably, government officials are separated from the government to become an independent stake-watcher in Chinese outbound M&As. The government officials are the specific implementers of policies and regulations, acting as a bridge between the government and the firms. They monitor corporate behaviour on behalf of the government agencies; meanwhile, they are significantly affected by the performance of outbound M&As in the form of respect, reputation and career promotion. Thus, government officials may well collaborate with the promising AFs, but also may act in the opposite fashion.

Despite these favourable stakeholders, competitors manifest as an unsupportive stake-watcher in Chinese outbound M&As, particularly in certain industrial sectors and markets. The intense competition in these domestic markets dramatically drives the emergence of outbound M&As, which in turn intensifies the competition for some other critical resources within China, such as regulatory approvals for overseas investment. In Case A, AF-A encountered a strong competitor (AF-B), who showed a great interest in acquiring TF-A, and during the acquisition of TF-B by AF-B, the intervention of AF-A strongly hindered the acquisition process.

The stake-watchers involved in Case C are not as complicated as in Cases A and B. AF-C did not have any direct institutional investors in the acquisition. However, AF-C did employ intermediary agencies, such as lawyers, accountants and a financial advisor, to help the firm with the acquisition issues. Additionally, there were only market competitors, which were regarded as potential competitors by the respondents, but there was no direct competitor in the acquisition of TF-C.

Stake-keepers The Chinese government exerts its coercive power in the economy. With regard to Chinese outbound M&As, a range of regulations have been formulated by the government (Sun, 2015; UNCTAD, 2006). Specifically, the central government formulates the national development strategies, plans and policies to guide and regulate

(*footnote continued*) financing economic and trade development. The ADBC provides funds for agricultural development projects in rural areas; the CDB specializes in pillar industry and high-technology industry financing; and the EIBC specializes in overseas trade and investment financing.

outbound M&As (Deng, 2009). In parallel, local governments draw up the regional development plans and regulations according to the national development directions as well as the local economic and social development needs (Krug & Hendrischke, 2008). Through coercive regulation, these stake-keepers ensure that Chinese outbound M&As run in line with the national strategy (Luo et al., 2010; Sun, 2015). In these cases, each AF feels obliged to obey the regulations in order to get the acquisition approval from the government's regulatory agencies.

However, as an emerging economy, a considerable number of cumbersome processes exist in the formal institutions. One of them concerns the complicated approval procedures, as mentioned in Section 4.1. Chinese AFs need to go through the "overseas investment approval procedure" from a variety of government authorities before the bidding and after the formal business agreement with TFs (Ministry of Commerce of China, 2009).

AF-B experienced real threats during the domestic approval process. In the acquisition of TF-B, AF-B narrowly missed the opportunity because the local government approved AF-B's competitor, AF-A, to conduct the acquisition in the beginning. In Cases A and C, although there were no real threats from the government approval authorities, the lack of approval standards and the strict time limit involved in the "overseas investment approval procedure" increased the acquisition costs for Chinese AFs and make overseas investment risky and uncertain, as revealed by the respondents.

Figure 4.3 presents the key domestic stakeholders involved in Chinese outbound M&As. Clearly, the most powerful stakeholders in Western M&As, such as shareholders, employees, labour unions and non-governmental organizations, are not highlighted as important in the legitimacy of Chinese outbound M&As.

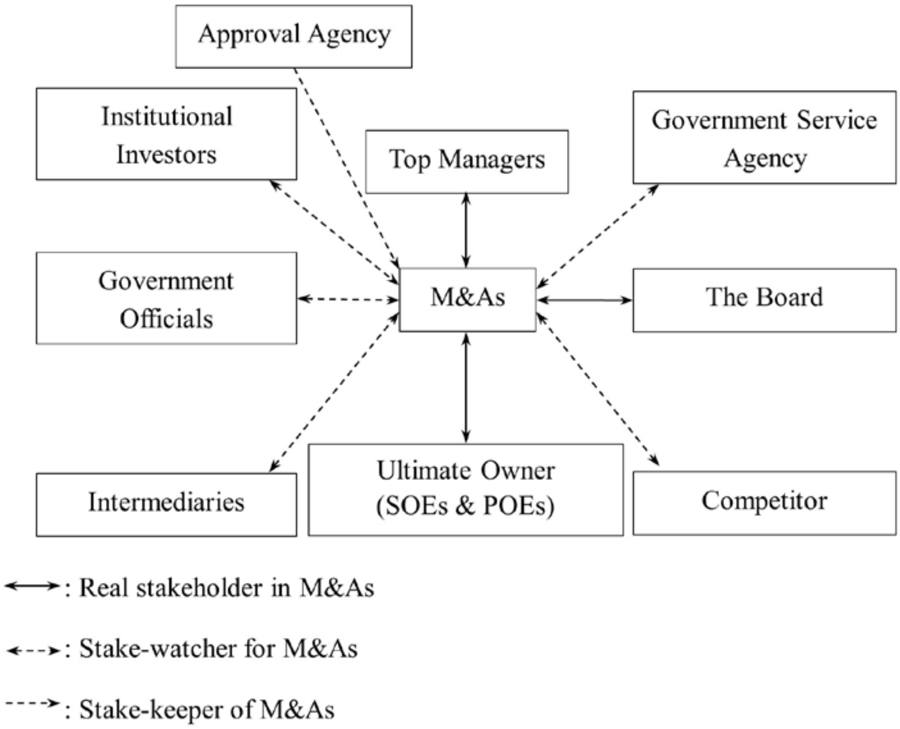

Figure 4.3 Key domestic stakeholders for Chinese outbound M&As

4.4.2 Taking strategic actions towards the various stakeholders

Manipulation Manipulative actions are mainly adopted to cope with the management team and the ultimate owners to win their commitment in the decision-making and implementation process of M&As. The successful manipulation of these real stakeholders is advantageous as it brings about their concerted action towards other stakeholders. The real stakeholders and the firms are highly dependent on each other; it may be costly for a real stakeholder to detach from the firm (Fassin, 2009) and vice versa. Therefore, it offers the possibility of being able to manipulate real stakeholders as well as their expectations. Interestingly, as the action agents of the firms, the top managers are the designers and executors of the strategies and naturally self-manipulate their own expectations to be consistent with the firms' interests.

In AF-A, the scheme to acquire TF-A was highly supported by the board and the management. Specifically, there was a dedicated acquisition team consisting of the Board Chairman, Vice President and top managers. This acquisition team guaranteed the efficient implementation of the acquisition decision. In AF-B, the high degree of overlap of the top managers, the board members and the ultimate owners (the founders) made the decision-making and implementation of the acquisition flexible and fast. Since TF-B sent invitational tender letters to all potential bidding firms in November 2011, the top managers of AF-B had been trying proactively to approach TF-B. The Chairman of AF-B wrote a letter to the founder of TF-B. He even flew to the target country to express his desire regarding acquisition. The proactive approach towards TF-B helped AF-B to obtain the final cooperation agreement. While in Case C, the management team employed every tactic to take over TF-C.

The local government, as the ultimate owner of AF-A, also supported the acquisition from the beginning to the end. This was because the development of AF-A was positively related to the prosperity of state-owned assets and the political performance of the local government. Different from Case A, where the local government showed a positive commitment to AF-A, the central government was the ultimate owner of AF-C and it played a role that was more like a regulator than a supportive ultimate owner in Case C. This may be because the local governmental interest was tightly related to the development of AF-A, while the success or failure of the acquisition of TF-C did not have a critical influence on the interest of the central government.

Negotiation Negotiation action is appropriate for stake-watchers, who might affect the acquisition either positively or negatively (Harrison & John, 1996). Through negotiation, the AFs can either build a formal partnership, or establish a relationship with personal trust and recognition with the potential supportive stakeholders, reducing and even removing the threat of unsupportive stakeholders. Stake-watchers are not originally related to the firms, and are relatively less dependent on the firms, whereas the firms are more dependent on stake-watchers; thus, stake-watchers can behave supportively if the firms’ goals are in line with their interests, or threateningly, if not (Phillips, 2003). Thus, it is seen as a necessity to negotiate with stake-watchers and to transfer certain benefits in order to obtain support and to avoid potential threats (Fassin, 2009).

In Case A, AF-A negotiated with the co-investor and built the formal collaboration during the acquisition process. Interestingly, the equity that the co-investor holds is not allowed to be traded in the first three years. In Case B, the co-investor participated in the formal alliance to co-acquire TF-B. In short, the effective negotiation balanced the interests between the AFs and their co-investors, thereby bringing about their collective action in the acquisitions. In return, both AF-A and AF-B achieved four advantages through the collaboration with their co-investors: (1) financial support: the co-investors offered funds; (2) management support: they also provided professional services and this was of significant importance in due diligence, negotiation with TFs and the post-acquisition integration stage; (3) risk reduction: they shared the risks with the AFs; and (4) political support: by taking advantage of their political networks, the co-investors may have helped to reduce the resistance of the domestic approval authorities.

Although no co-investor was involved in Case C, the intermediaries did participate in the acquisition of TF-C. It seems that intermediaries are the easiest stakeholder that the AFs have to deal with. Once the AFs and the intermediaries make an agreement on the service fee or the commission, the intermediaries will act together with the AFs, and put in full effort in the interests of the AFs.

With regard to the officials, the top managers candidly reported to the local government officials and answered their questions in person during the purchase of TF-A. In this way, the acquisition obtained the recognition and confidence of the officials. In Case B, AF-B's road to acquiring TF-B was almost ruined because the local government approved AF-A to carry out the acquisition in the beginning. However, the President and CEO of AF-B actively communicated with the local government and principal officials in order to get the green light for acquisition, which gradually changed their attitude. In Case C, AF-C proactively negotiated with the government officials during the domestic approval procedure. It helped by gaining the feedback from the officials and modifying the application documents so that they were in line with the requirements.

Due to the limited financing sources in China, access to loans from domestic banks is the major financing channel for overseas investment (Morck et al., 2008). It may not be surprising that domestic state-owned policy banks are supportive in offering loans to SOEs, since they are naturally connected through shared state ownership (Chen & Young, 2010; Tian & Estrin, 2007). However, it does not mean that SOEs can gain favourable bank loans easily and automatically. A manager in AF-A explained that the policy bank required business returns in terms of certain business scopes as well.

Therefore, the company showed their business model, management model, risk-prevention model and debt-repayment scheme in order to prove the feasibility and the prospects of the project.

Of course, it does not mean that POEs have no chance of obtaining favourable loans from state-owned banks, either. Prior research argues that Chinese POEs are likely to gain favourable loans from state-owned banks if the management is politically connected, for example, if the Chairman or CEO of the firm is a deputy of the National People’s Congress (NPC) or the Congress of Communist Party of China (CCPC). This kind of political status held by the top management entails an informal networking tie with the government and is conducive to trust building with the state-owned institutions, such as the state-owned banks (Firth et al., 2009; Li et al., 2008; Zhou, 2013). The major founder of AF-B was appointed as a deputy of both the NPC and CCPC prior to the acquisition. In addition to informal relationships, commercial judgements are also important considerations for lending decisions for large, leading manufacturing POEs (Firth et al., 2009). Therefore, AF-B proactively negotiated with the policy banks and built strategic alliances to obtain credit support.

The AFs adopted a different type of negotiation action to their competitors, that is, negotiation with the other key stakeholders in the acquisitions, in order to establish a solid alliance with them and weaken the power of their competitors. In Case A, AF-A moved first and received the approval from the local government. In doing so, AF-A acquired an exclusive right and excluded all domestic bidding competitors from the acquisition. In Case B, AF-B adopted a similar strategy. When its competitor got bidding approval from the government, AF-B bypassed both its competitor and the government, negotiated directly with TF-B and reached a business agreement. The agreement between AF-B and TF-B made the competitor’s efforts pointless. In Case C, AF-C did negotiate with TF-C and set up an exclusive negotiating period to exclude other potential bidding competitors.

Adaptation Generally, the regulators offer a legal framework, tend to be neutral and pursue fairness. However, facing the new phenomenon of outbound M&As, the stake-keepers in an emerging economy may not be able to play their roles well, due to an inadequate regulatory framework and the limited effectiveness of legal enforcement (Deng, 2009; Khanna & Palepu, 2006).

Adaptation is likely to be an appropriate action towards stake-keepers in China. It fits the transition economy of China better than actions such as resistance, avoidance and compliance in Western economies where the formal rules are relatively well developed (Oliver, 1991). Although an imbalanced power structure exists in China where the power of stake-keepers is very strong and almost irreversible, firms can still survive by fitting themselves to the expectations of the stake-keepers, adapting the formal institutional system and positively filling in the institutional voids.

At first glance, the strategic action towards Chinese government regulatory agencies in Case A seems to be compliance (Child & Tsai, 2005). AF-A adopted a "down-to-earth" strategy in order to obtain bidding approval. Specifically, all of the business details were realistically reflected in the application document according to the regulatory requirements. However, facing the underdeveloped factor markets, AF-A established a special purpose vehicle (SPV) in Hong Kong as the entity to acquire TF-A. The SPV may result in better protection from the institutional risk. Thus, although AF-A complied with the domestic approval regulations, it still tried to escape the institutional voids to ensure its legitimacy in the future.

In Case B, facing the disapproval of the government, AF-B took a "fait accompli" (*先斩后奏* in Chinese) action. AF-B violated the overseas investment approval procedure, negotiating with TF-B prior to reporting to the domestic government. As a result, this crafty action transformed the government's attitude from one of a substantial threat to one of support.

In Case C, AF-C "comprehends (the regulations) and operates aptly" in order to get the acquisition application approved. The management team tried their best to grasp the regulations and get all the documents ready according to their own understanding of the requirements.

4.4.3 Outcomes

The outcomes refer to both the attitude changes of various stakeholders and the ultimate legitimacy status of outbound M&As. Table 4.4 summarizes the outcomes. In all the cases, successful stakeholder management made the attitudes of potential supportive stakeholders change from "absent" to "support" and the attitudes of unsupportive stakeholders change from "oppose" to "support" or "absent". Collectively, this helped the firms to win legitimacy for their outbound M&A projects.

Table 4.4 Outcomes in each case

Stakeholder category	A	B	C
Real stakeholder	Attitude change		
Top managers	Support from beginning	Support from beginning	Support from beginning
The Board	Support from beginning	Support from beginning	Support from beginning
Ultimate owner	Support from beginning	Support from beginning	Potential oppose→Support
Stake-watcher	Attitude change		
Institutional investors	Absent→Support	Absent→Support	NA
Intermediaries	Absent→Support	Absent→Support	Absent→Support
Government officials	Support from beginning	Real oppose→Support	Potential oppose→Support
Government service agency	Support from beginning	Support from beginning	NA
Competitor	Oppose→Absent	Real oppose→Absent	(potential): Oppose→Absent
Stake-keeper	Attitude change		
Approval agency	Potential oppose→Support	Real oppose→Support	Potential oppose→Support
Legitimacy status	Legitimate	Legitimate	Legitimate

4.5 Discussion and Conclusion

This chapter studies an overlooked phenomenon of the legitimization process for Chinese outbound M&As. We revealed the interplay between Chinese AFs and their salient stakeholders, illustrated how AFs achieved legitimacy for their outbound M&As through manipulating real stakeholders, negotiating with stake-watchers and adapting themselves to stake-keepers.

This chapter advances the understanding of Chinese outbound M&As by extending the literature concerning the legitimization process and the interactions of the relevant stakeholders. Notably, the legitimization process of Chinese outbound M&As subverts some of the Western traditions. First, we identify the salient stakeholders and their functions in China's outbound M&As. Different from developed economies (DEs) where real stakeholders are predominant, in China, the institutional investors, the government and officials as stakeholder-watchers and stake-keepers are more salient in determining M&A legitimacy. The evidence is shown in Table 4.4 that real stakeholders are likely to be supportive throughout the legitimization process, while stake-watchers and stake-keepers may well be a threat to M&As.

Second, we confirmed that the government plays multiple roles as stake-keeper, stake-watcher and as a real stakeholder, which has been highlighted as an important difference between China and DEs in the prior literature. Prior research argues that the complex multiple identities of government have either a longboard or barrel effect on the performance of Chinese SOEs. If the advantages outweigh the disadvantages, it will positively affect the corporate performance, otherwise, negatively (Zhou, Guo, Hua, & Doukas, 2015). However, from the stakeholder perspective, the multiple identities of government need to be treated independently in the legitimacy of outbound M&As. Failure in managing any individual role of the government may lead to the failure of outbound M&As.

Third, this study implies the specific institutional environment as a constraining condition for strategic actions. Growing in a transition and emerging economy, facing the institutional voids of formal regulations in terms of emerging outbound M&As, CMNEs adopt an adaptation action rather than simple compliance, avoidance or resistance to domestic formal rules. In so doing, they tend to achieve the objectives by positively coping with institutional loopholes in China. Clearly, the adaptation action taken by CMNEs differs significantly from DEs. Take the USA, for example, where there are many lobby groups in Washington DC who are industrial representatives. These lobby groups have great power to bring about changes in the law. Notably, these lobbying actions are open and regulated according to public rules. Similarly, either resistance or compliance involves directly disposable actions towards formal rules. Instead, adaptation action relates more to the accommodation of the formal rules to moderate potential damages or to benefit from opportunities associated with institutional voids. Another example is negotiation with stake-watchers. Here, negotiation, to some extent, is a process with which to build informal relationships. This is particularly true during the interactions with the government agencies and officials. When the institutional environment cannot provide a sound framework and an effective execution of the law, individuals and organizations tend to take relation-based actions to respond to the voids and cumbersome regulations, and to protect their interests (Li, 2013; Rodrigues & Child, 2003). By so doing, the relation-building negotiation is conducive to interpersonal trust building, reducing the information asymmetry and facilitating the enforcement of law, thereby substituting the institutional voids.

Concerning managerial implications, given the limited resources and energies, it is critical to assess and make trade-offs regarding the importance of various stakeholders in the specific case under each specific context (Jensen, 2001). In the case of Chinese outbound M&As, it is essential for CMNEs to detect the salient and powerful interest groups, their functions and interests, and promote a favourable environment through different strategic actions to obtain legitimacy for outbound M&As.

There are limits to be considered. First, we did not take the personal competence of the action agents into consideration in this study. It is notable that the outcomes of strategic actions are highly dependent on the personal competence of the action agents of the firms. The stronger the competence of the agents is, the more likely that the firms will achieve legitimacy and better performance. Therefore, the competence of the action agents should be taken into account in future research. Second, our study has focused exclusively on the more leading Chinese firms and successful outbound M&As. The results may not apply to failed M&As. Further research should take the failed cases into account. In addition, only a limited number of cases (three cases) have been selected and coded for analysis. The empirical results have to be interpreted with some caution. Last but not least, we only focus on the strategies towards domestic stakeholders. A study of strategies towards the host country stakeholders will lead to a complete picture of the outbound M&A legitimization process.

CHAPTER 5

The Wu Wei Paradigm of Chinese Post-Acquisition Integration: Antecedents, Top-Down Effortlessness and Bottom-Up Reversion

The focus of this study is on unpacking post-acquisition integration by Chinese multinational enterprises (CMNEs) in developed economies (DEs). Drawing on multiple cases of cross-border mergers and acquisitions (CBMAs), the value of this study lies in the identification of not only objective antecedents underlying the integration, but also subjective contradictions and asymmetries in terms of status and vision between CMNEs and acquired companies. This "grey box" is manifested in both a top-down effortless integration initiated by CMNEs and a bottom-up reverse integration by acquired companies. By linking the pre- and post-acquisition phases, this study builds a new model of post-acquisition integration based on an indigenous Wu Wei paradigm. In so doing, this counterpoises the extant CBMA literature, shifting from acquirer-centric, task and efficiency-focused and rationalistic-based views to the Chinese both-centric, people and harmony focused and "go with the flow" views.[9]

[9] The revised version of this chapter was submitted to the journal *International Business Review*.

5.1 Introduction

Cross-border mergers and acquisitions (CBMAs) have become one of the dominant strategies for Chinese multinational enterprises (CMNEs) to internationalize (Buckley, Elia, & Kafouros, 2014; Liu & Woywode, 2013; Spigarelli, Alon, & Mucelli, 2013). From 2004 to 2013, China increased its transaction value tenfold in CBMAs, from only 3 to 33.79 billion US dollars (Ministry of Commerce of China, 2014). Among these CBMAs, CMNEs have gradually manifested their interest in knowledge-intensive sectors, such as machinery, biotechnology and information technology in developed economies (DEs) (Zheng et al., 2014). Despite the boldness and aggressiveness of entering into DEs through CBMAs, CMNEs have surprised observers through the apparent effortlessness and their ability to go with the flow during post-acquisition integration.

The unconventional behaviour of this post-acquisition integration may challenge the conventional wisdom on the dominant mainstream theories of CBMAs and multinational strategy. The extant literature on post-acquisition integration has highlighted structural integration characterized by a significant degree of integration with a “bold stroke” and has assumed the acquirer-centric top-down planned integration as a necessity to realize the synergy (Haspeslagh & Jemison, 1991). Following this logic, one stream of research seeks to explore the motivations of CMNEs and their impacts on the strategic and financial performance of the integration (Bhagat, Malhotra, & Zhu, 2011; Boateng, Qian, & Tianle, 2008; Deng, 2010b). While this has undoubtedly charted a preliminary model of Chinese CBMAs, the key assumption underlying these analyses is structure-based and efficiency-oriented, indicating a linear relationship between the pre-acquisition antecedents and post-acquisition integration performance. Critics have commented on the explanatory dilemma of the structural linkage due to the complexity of CBMAs (Stahl et al., 2013), since it is not the restricted clusters of *ex ante* objective factors per se that determine the success or failure of CBMAs, but rather how the various parties subjectively interpret these factors as well as the manner in which these factors are managed during the integration process (Stahl & Voigt, 2008). Therefore, such first-level linkages have created a missing link in understanding how these objective existences of antecedents lead to the formation of the aforementioned effortless integration approach rather than others (Redding, 2014).

The other stream of research has exclusively offered a positive view on the consequence of effortless integration (Kale, Singh, & Raman, 2009; Zheng et al., 2014). There are, however, a few exceptions that do highlight the inherent issues associated with the integration process, such as ambiguity and confusion (Hirt & Orr, 2006; Kumar, 2009). The benefit-based studies thus do not holistically shed light on the post-acquisition "grey box"[10] (Zander & Zander, 2010).

Clearly, these bodies of literature do not so readily apply to the behaviours of CMNEs. These pieces of literature exclusively reflect the "giving full effort" practices of developed economy multinational enterprises (DMNEs). Unfortunately, CMNEs are very different from DMNEs in terms of both their thinking and practices. In particular, the Chinese philosophy of Taoism advocates action that is not forced, deliberate or burdened with effortful striving, which has a profound influence on the Chinese management style. Logically then, a departure from the conventional wisdom may help to capture the nuances in Chinese CBMAs.

This study focuses specifically on two highly related questions: (1) what is the missing link between the objective antecedents and CMNEs' effortlessness in the integration process?; and (2) how does the effortlessness function in post-acquisition integration? These particular explanatory dilemmas have not been captured and addressed by the current literature. We attempt to contribute to CBMA literature in three ways. First, we provide new illumination into the antecedents of CMNEs' CBMA integration. While significant efforts have been put into identifying factors that influence the integration process, such as synergy, experience, capability and culture, these bodies of literature remain fragmented and exclusively focus on objective factors. We investigate how they are linked to the formation of subjective perceptions, and in so doing, advance the understanding of *ex ante* factors affecting CMNEs' CBMA integration. Second, this study should be considered as an extension of and complementary to the recent stream of literature on post-acquisition integration by emerging economy multinational

[10] Zander and Zander (2010) suggest that the CBMA integration should be seen as unpacking a "grey box" instead of the traditional "black box", due to the fact that certain things about an intended acquisition target are known and knowable before the post-acquisition integration process starts.

enterprises (EMNEs) in DEs. We argue that besides the beneficial gains, the adoption of the novel effortless integration approach brings inherent issues, which create a reversal space for acquired companies to take actions and in turn lead to certain integration. This finding is particularly interesting, as it harbours a “both/and” perspective, which differs from an acquirer-centric perspective in the dominant research on top-down imposed integration. Third and most importantly, we attempt to introduce an indigenous paradigm and constructs from Chinese Taoism philosophy to conceptualize this novel integration, and propose a fresh model explaining the CBMA integration process in DEs by CMNEs as Wu Wei integration.

The chapter is structured as follows. The next section provides the theoretical background. Section 5.3 presents the research design and methodology, with the empirical findings in Section 5.4. Section 5.5 concludes with theoretical and managerial implications, and suggestions for future research.

5.2 Theoretical Background

A significant rise in CMNEs’ CBMA activities in DEs challenges the conventional wisdom (Wright et al., 2005). This is not only because CMNEs face great opportunities and challenges (Deng, 2012), but also because they continuously rewrite the rules of CBMAs by adopting distinctive techniques to manage acquisitions (Kumar, 2009).

Current research on CBMAs has been divided into four schools of thought (Bauer & Matzler, 2014). First, the financial and economic school tests the financial and accounting-based performance, which has been dominant in measuring the success of CBMAs (Stahl & Voigt, 2008); second, the strategic management school focuses on the effect of pre-acquisition phase strategic similarity and complementarity (Harrison, Hitt, Hoskisson, & Ireland, 2001; Larsson & Finkelstein, 1999); third, the organizational behaviour school analyses the impact of organization-related factors, such as organizational culture (Schein, 1990) and organizational experience (Hayward, 2002), which involves both pre- and post-acquisition issues; and lastly, the process school highlights the decisive role of post-acquisition integration on the success of CBMAs

(Birkinshaw, Bresman, & Håkanson, 2000). Although there is a call for a holistic understanding of CBMAs, the research on Chinese CBMAs remains fragmented and disconnected (Liu & Woywode, 2013).

This section begins with a review of the existing literature on antecedents of Chinese CBMA integration and the integration process. To be clear, due to the qualitative nature of this chapter, we exclude the financial and economic school of thought in the literature review and the following analysis. Based on the literature review, two explanatory dilemmas are found and a Chinese "go with the flow" view on contradictions and the process is proposed.

5.2.1 Antecedents to CBMA integration

5.2.1.1 Complementary goals

Synergistic benefits and value creation of CBMAs can be obtained from the combination of both strategic similarity and strategic complementarity in the operations of the joining firm (Larsson & Finkelstein, 1999). Normally, similar resources are integrated significantly in a quick way so as to build monopoly-like conditions in the marketplace and achieve "economies of sameness" (Harrison et al., 2001). Synergistic complementarity refers to different products, market access, or know-how that fit with and enhance one another (Larsson & Finkelstein, 1999). The acquisitions of firms with complementary resources are more likely to create sustainable competitive advantages through valuable, unique and difficult-to-imitate synergies (Harrison, 1991; Harrison et al., 2001). However, post-acquisition integration is particularly challenging and complex when the aim goes beyond "economies of sameness", but targets "economies of fitness" (Larsson & Finkelstein, 1999). A quick integration, due to the disruption of the routines and practices, may lead to management turnover and a diminished value for the complementary resources.

Existing research has contended that CBMAs provide an opportunity for CMNEs to explore strategic assets that are in the same domain but complementary in terms of attributes. CMNEs aim at exploring superior technologies, established global brands and marketing capabilities in DEs (Child & Rodrigues, 2005; Deng, 2009; Rui & Yip, 2008), as a complement to upgrade their competitive technologies and improve their marketing capabilities (Zheng et al., 2014). Despite the systematic discussion on CMNEs' strategic goals, only a few studies touch upon the rationale of target companies engaged in Chinese CBMAs. Knoerich (2010) finds that the reason why Germans sell their companies to CMNEs is that they are increasingly aware of the necessity to assure their survival by re-entering the low-end market and manufacturing lower priced products in China, as well as to develop and innovate by getting funding from China. Thus, the goals of CMNEs and acquired companies are complementary to each other. Their complementary goals not only lay a foundation for mutual consensus to engage in acquisitions, but also trigger novel integration measures such as a high degree of post-acquisition autonomy and independence of the acquired companies in order to avoid the disruption of their routines (Zheng et al., 2014).

5.2.1.2 Prior experience

The integration capability, namely, a capability specific to managing the integration process, is a prerequisite to success in the post-acquisition phase[11] (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986). Drawing on the "learning-by-doing" assumption, existing research often uses the total count of prior acquisitions by the same acquirer as the proxy of integration capability accumulated through prior acquisition experiences. This proxy is questionable because learning is more complicated than automatically following on from experience accumulation (Barkema & Schijven, 2008). Moreover, different types of prior experiences might generate different learning outcomes (Puranam & Srikanth, 2007).

Among various experiences, failure might be an essential part of the learning process. Yet virtually only a few studies have been done in the area of learning from failed acquisitions (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). On the one hand, failures may raise the level of awareness and understanding of the causes of failures, and remind

[11] The integration capability is not the only ability relevant to the post-acquisition performance. For example, the abilities to identify, assess and acquire the appropriate acquisition candidate are as important as the integration capability.

the acquirer of deliberating more to extract the possible experiential values. Consequently, it advances the learning of the complexity of the integration process, thereby helping the acquirer to improve its coordination mechanisms (Zollo & Winter, 2002), and thus leading to a higher level of structural integration (Puranam & Srikanth, 2007). Similarly, Sitkin (1992) insists that failures create an opportunity to recognize the risks and motivate the organizations to change their beliefs and attitudes, so that the behaviour is altered. Of course, an acquirer does not necessarily need to fail themselves so as to learn, but engages in vicarious learning, wherein the acquirer observes the mistakes made by its peers, then takes actions to avoid similar mistakes (Delong & DeYoung, 2007). On the other hand, researchers argue that not all failures from prior acquisitions promote learning and superior performance in the subsequent acquisition; only small failures intensify the search for richer references for subsequent acquisitions (Hayward, 2002). This is because large failures demonstrate the acquirers' incompetence, including their inability to learn appropriately. Acquirers who have experienced large failures tend to make "attributional errors", in which acquirers attribute the failure to the exogenous causes, such as the lack of enthusiasm of the acquired companies. Furthermore, acquirers suffering large losses might defer from further acquisitions.

The failure rates of Chinese CBMAs have remained high over the past decade (Deng, 2010b). While many of the CBMAs have brought staggering losses, they seem not to deter CMNEs from international expansion through CMBAs. Drawing on prior research about acquisition experience, we expect that CMNEs will put more effort into refining their knowledge about the integration process.

Much of the heretofore analysis concerning prior experience has been at acquisition experience level, yet there is growing awareness of the importance of other experiences, such as alliance experience. Vanhaverbeke, Duysters and Noorderhaven (2002) posit that prior partner-specific alliances increase the possibility of a subsequent acquisition. The partner-specific alliances, such as joint ventures and technological collaborations, provide a great opportunity to get acquainted with each other, not only in terms of assets and capability characteristics, but also in terms of the national and corporate cultural idiosyncrasies (Very & Schweiger, 2001). Such mutual understanding helps to alleviate asset and managerial indigestibility and enhance the capabilities or routines in the interaction. As the potential barriers have been reduced or eliminated, the alliance experience might accelerate the integration speed in the following acquisition.

5.2.1.3 Cultural differences and dynamics

Cultural differences can be defined as national-specific and organizational-specific differences in values, beliefs and practices (Hofstede, 1980; Olie, 1994; Schein, 1990). The cultural perspective has become a dominant paradigm in CBMA research. Hofstede’s (1980) typology of national culture, namely, power distance, individualism versus collectivism, masculinity versus femininity, uncertainty avoidance and long-term versus short-term orientation has been widely used by researchers in studying the impact of national cultural differences in CBMAs (Calori, Lubatkin, & Very, 1994; Morosini, Shane, & Singh, 1998). In addition, the relation between organizational cultural differences and CBMA performance has also been investigated since it becomes salient when organizations with different cultures need to be integrated (Chatterjee, Lubatkin, Schweiger, & Weber, 1992).

Despite the wide attention concerning cultural differences placed on CBMAs, the results are inconclusive and sometimes contradictory. A major reason is that researchers regard cultural differences as given (Fang, 2012) and relate them directly to post-acquisition integration and performance (Rottig et al., 2013). However, acquisition success is not dependent on cultural differences per se, but rather upon cultural dynamics that are responsible for cross-cultural issues (Leung, 2014; Rottig et al., 2013) and cross-cultural management mechanisms (Stahl & Voigt, 2008; Stahl et al., 2013). For example, Leung (2014) and Vaara, Tienari and Piekkari (2005) argue that social identity-based groups often exhibit prejudice and discrimination against other groups because of in-group favouritism and out-group denigration, even with two groups encompassing highly similar cultures, but the social controls through introduction programs, cross-visits, retreats, celebrations and similar socialization rituals may protect against repulsion to the dissimilarity (Larsson & Lubatkin, 2001).

This identity similarity attractiveness assumption is challenged by Yildiz (2014). He posits that the intergroup relation is contingent upon the intersubjective status, referring to the degree to which an individual/organization is respectable or admirable in the eyes of others. In the case of acquisitions, if members in the acquired company perceive their organization to occupy a low-status position vis-à-vis the acquirer with high status, they may be willing to dis-identify the acquirer and increase their support and commitment to the acquisition (Hogg, Van Knippenberg, & Rast, 2012). As such, dissimilarity becomes attractive to the former due to the more favourable social position, and/or superior competence, access to resources and economic competitiveness of the latter (Very, Lubatkin, Calori, & Veiga, 1997). In general, the high-status party is assessed more positively by the low-status party, takes a more active role in the interaction, exercises higher control and influence over the ultimate decisions and assumes a leadership position. In contrast, if the acquirer is perceived to have inferior and/or a marginally superior status by the acquired, the latter may find it most difficult to trust the competencies of the former, and the likelihood of the "fear of contamination", employee resistance, out-group hostility and management turnover increases (Empson, 2001). As a consequence, more time and effort are required for the acquirer during the integration so as to win trust and build a shared identity (Yildiz, 2014). Overall, the integration progress is influenced and moulded not only by cultural differences, but also by perceived status heterogeneities.

Following Hofstede's typology of culture, research shows that cultural differences between China and DEs have an adverse effect on CBMAs. With the growing cultural distance, the likelihood increases that the practices of the joining firm are incompatible. This further leads to the implementation problems and undermines the successful transfer of capabilities and resource sharing (Björkman, Stahl, & Vaara, 2007). Confirmed in a case study of a Chinese acquisition of an Italian company (Spigarelli et al., 2013), integration problems do emerge, due primarily to cultural differences in language, attitudes, lifestyles and business approaches. Besides cultural differences, CMNEs in DEs may also encounter a low status perceived by managers and employees in acquired companies because of their Third World status and less advanced technological and managerial know-how. Such an identity creates difficulties for CMNEs to claim, and for local employees to grant them leadership roles (Leung, 2014). These critical issues naturally raise the tension of CMNEs in their integration of DE companies (Leung et al., 2005). The implementation concerning earning the leadership position becomes a headache to CMNEs (Spigarelli et al., 2013).

5.2.2 A hybrid integration approach

In addition to the pre-acquisition issues, there is a growing perception of the importance of the post-acquisition integration process (Birkinshaw et al., 2000; Stahl & Voigt, 2008). The post-acquisition integration process involves two conceptually distinctive aspects: task integration and sociocultural integration (Birkinshaw et al., 2000; Stahl & Voigt, 2008). Task integration is defined as the identification and realization of operational synergies; it is a process of capability and resource transfer or sharing. Task integration consists of production, marketing and system integration[12] (Bauer, Matzler, & Wolf, 2014; Cording, Christmann, & King, 2008). Sociocultural integration involves the reduction of uncertainty among employees to generate a sense of shared identity and trust, and the creation of positive attitudes towards the new organization (Bauer et al., 2014; Cording et al., 2008), which consists of organizational structure, organizational culture and personnel management practices. Extant research suggests three different integration approaches based on the integration degree of both aspects (Haspeslagh & Jemison, 1991): absorption, symbiosis and preservation. Current research widely supports this integration approach framework and considers synergy potential as the key determinant for the approach choice (Weber, Tarba, & Reichel, 2011). Moreover, the acquirers' initiated top-down planned integration is held in high regard (Kumar, 2009). Table A.1 provides an overview of the post-acquisition integration approach framework.

Recently, a handful of researchers have found that EMNEs have adopted a new integration approach. This approach is seen as a hybrid approach between symbiosis and preservation (Liu & Woywode, 2013), termed as a "partnering approach" from a collaboration standpoint (Kale et al., 2009; Kale & Singh, 2009) and a "light-touch approach" from an integration degree perspective (Cogman & Tan, 2010). On the one

[12] According to Cording et al. (2008), production integration consists of production and supply sources; marketing integration is composed of distribution channels, sales/after-sales service and marketing programs. System integration consists of strategic planning systems, financial and budget systems, and management information systems.

hand, it differs from symbiosis and absorption in the way that despite a high potential for synergy, EMNEs do not aim at partial or full structural integration in a rush. By contrast, EMNEs choose to manage acquisitions at arm's length by maintaining the boundary of the two parties and granting a great deal of managerial freedom to the retained management team in acquired companies (Zheng et al., 2014). On the other hand, unlike preservation, which shows the lowest degree of integration due to the lowest level of synergy potential, the hybrid approach signifies a proactive attitude by EMNEs towards integration. They hunt for synergies selectively and strategically in a stepwise and nonthreatening manner (Kale et al., 2009). Thus, EMNEs harbour a long-term vision so as to reap the value from acquisitions over time (Kumar, 2009).

The hybrid approach provides tremendous opportunities for the mutual benefit of the acquirers and acquired companies (Liu & Woywode, 2013). It helps to avoid the disruption of the acquired companies' core competencies (Kumar, 2009; Zheng et al., 2014). Meanwhile, it enables EMNEs to earn some breathing space to become familiar in their new environment (Cogman & Tan, 2010). Moreover, it not only prevents employee turnover and the decline of organizational morale, but also creates a harmonic climate in acquired companies where people are motivated to assume great responsibility for the acquisition and share best practices (Madhok & Keyhani, 2012).

The literature review suggests that the objective antecedents that influence post-acquisition integration are of great complexity. In the case of Chinese CBMA integration, current research manifests the dilemma in explaining the adoption of the hybrid integration approach. On the one hand, it indicates that complementary goals trigger the tendency of granting a high degree of autonomy and independence to acquired companies, while on the other hand, research on prior experience in acquisition failures and alliances, as well as the cultural and status differences with DE companies suggests a grasp of the initiative so as to put more effort in and introduce more superior implementation skills to manage the integration process. Given the dilemma, we suggest that there might be a missing link concerning how CMNEs trade-off between the underlying actions. Given this, the following research question needs to be clarified:

RQ1: What is the missing link between the objective antecedents of integration and CMNEs' hybrid integration approach?

The literature review also reveals that there is a paucity of research that explores the hybrid integration approach from a holistic perspective. Notably, current research tends to look at EMNEs' hybrid approach from a benefit-based perspective. However, based on the study of Vaara (2003), there might be four impediments to effective CBMA integration. First, CBMAs are characterized as having *inherent ambiguity* derived from originally separate organizations (Cartwright & Cooper, 1993; Datta, 1991), in the sense that organizational actors might have very different views and interpretations on the necessary changes in terms of integration purposes, the acquired company's identity or roles between the managers of acquirers and acquired companies (Vaara, 2001). Second, the problems concerning communication and social interaction are referred to as *cultural confusion*, which is caused by cultural differences and decision-making practices in cross-border settings (Very, Lubatkin, Calori, & Veiga, 1997). For example, it often takes a while until the actors from the two parties realize that they have talked about totally different things in the concrete discussions of the same projects (Vaara, 2003). Third, the loose coupling of integration rhetoric and action appears to be *hypocritical* in the strategic planning and special meeting activities for integration promotion (Vaara, 2003). This is likely to be common in CBMA integration where plans and ideas concerning synergy, cooperation and transfer of knowledge are frequently forgotten in the routine management. Fourth, the changes caused by integration inevitably create huge opportunities, threats, benefits and risks for different parties and actors. These specific interest conflicts may trigger subsequent *politicized* actions, such as confrontations, manoeuvring or power plays (Vaara, 2001). To be able to clarify and elaborate how the "grey box" of integration works in CMNEs, the second research objective is raised:

> RQ2: How does the hybrid integration approach function in CMNEs' post-acquisition integration in DEs and what are the consequences?

5.2.3 A "go with the flow" view on contradictions and processes

CMNEs who are faced with contradictory objective realities nevertheless adopt a "go with the flow" effortless integration approach, fundamentally challenging the "giving full effort" assumption in the traditional structural integration approach in the existing literature.

Essentially, the "go with the flow" approach is the core principle of Chinese Taoist philosophy. In Taoism, to "go with the flow" means non-action or effortless action, which in Chinese is coined as *Wu Wei* (Slingerland, 2003). Taoism believes that the power of "go with the flow" is enormous, just like moving water can carve stone because of its soft and yielding nature (Chatzkel & Ng, 2013). When facing opposition, the Taoist "go with the flow" (also as effortlessness and *Wu Wei*) approach captures an inclusive mind-set and an accommodating perception towards contradictions and paradox, suggesting that "self" and "other" are not diametrically opposite, but interdependently opposite. Rather than polarizing the objective realities and options of strategies into "either/or" fractions, the "go with the flow" approach allows actors to enable a balanced resolution of polarities in the problem-solving process (Chen, 2002). Clearly, it is not a state of absence fuelled by sloth or fear of failure, but is a profound state of being inclusive, soft, effortless and a willingness to accept, not just tolerate not knowing, chaos and contradictions.

Importantly, the "go with the flow" approach highly stresses the importance of self-reflexivity. Self-reflexivity is a process through which people question their understanding of particular events and become aware of how to shape their responses (Xing & Sims, 2011). Noticeably, the Taoist advocates lying low and behaving in a humble manner both when they confront frustrations and when they are too successful (Cheung & Chan, 2005). Self-reflexivity in this sense entails forbearance, concealing one's advantages and superiority, and self-effacement. Taoists believe that humility and lying low are the key for maintaining the stability of the system (Li, 2014).

Associated with management and governing, Taoism favours not disturbing the system but running it via its natural cycle (Li, 2014). By going with the flow, a solution will emerge naturally, which is related to the other core principle that is closely related to the process: *reversion.* Reversion is seen by Taoists as a law of nature – pursuing strength too actively may run counter to the desired effect, while holding onto weakness so that one might be strong (Slingerland, 2003), just like water that is extremely soft but is incredibly strong, in the long term, is beneficial. Instead of going against the diversity and replacing conflicts, Taoists believe that the freedom from direct conflicts, the reconciliation of conflicts and the creation of resolutions on behalf of mutual benefits may capture the enlightening potential in the long term.

In terms of the result, the “go with the flow” view focuses on people and subjective harmony instead of objective tasks (Chen, 2002). To “go with the flow” is a state of not forcing a situation or being attached to the results, which obviously goes against planning or setting objectives or measuring “success” with economic or financial accomplishments (Xing & Sims, 2011).

We contend that understanding the international strategies of CMNEs without incorporating Chinese perspectives and views not only leads to the explanatory dilemma, but also misses the nuances of the story. Therefore, it is necessary to introduce the Chinese view in exploring the CBMA integration process.

5.3 Research Design and Methodology

We adopt a multiple-case research approach in order to capture the complexity and multifaceted nature of CBMAs (Eisenhardt, 1989; Yin, 1994). In terms of case selection, since our research focuses on Chinese CBMAs in DEs, we scoped the Netherlands (NL), Germany (GE), Italy (IT), France (FR) and America (US) to identify potential cases. According to the Ministry of Commerce of China (2014), these countries are the major targets of Chinese CBMAs. Meanwhile, we selected industrial sectors ranging from construction machinery and automotive manufacturing, information technology, to modern agriculture, entertainment and finance, because (1) these sectors in DEs are of greatest interest to Chinese companies, and (2) technological, managerial and marketing know-how in these sectors is of significant importance in the integration process.

In terms of data collection, the qualified cases were extracted from the Zephyr Database[13]. After the preliminary identification of potential cases, we began to contact both the acquirer and the acquired either by email and phone, or through personal

[13] Zephyr is the most comprehensive database of deal information on M&As, IPOs, private equity and venture capital deals and rumours. This database is produced by Bureau van Dijk.

contacts to reach the potential respondents. From July 2012 to May 2015, we conducted interviews with 18 respondents directly engaged in 12 acquisitions. Table 5.1 provides a brief overview of these acquisitions. The acquisition year ranges from 2008 to 2014. All the acquired companies are privately owned and the acquirers can be divided into roughly two clusters: state-owned and privately owned. This sample not only represents the diversity of Chinese CBMAs, but also allows for a systematically comparative analysis across the cases (Seawright & Gerring, 2008). All these respondents hold mid-to-high level management positions either in the acquirer or in the acquired firm, and have decision-making rights or implementation obligations in the integration process. In Cases D, F and J, interviews were also conducted with the external advisors who directly participated in these deals. They have sound knowledge of the focal acquisition in terms of the acquisition targeting, negotiating and contracting issues. Therefore, interviews with these upper echelons constituted the major data source. Table 5.2 provides the information on these direct participants.

Table 5.1 Case overview

Case		Acquirer					Acquired	
ID	CBMA year	Industry	Ownership	Employee No.	Corporate culture	International experience	Target country	Employee No.
A	2011	Construction machinery	State	28,000	Inclusiveness, enduring, harmony	Joint ventures	NL	35
B	2011	Geographic information	State	3,000	Innovation, professionalism, dedication, cooperation	Joint ventures & CBMA	NL	120 (Dutch), 40 (Chinese)
C	2011	Construction machinery	State	50,000	Collaboration, innovation, excellence, integrity	Green-fields & CBMA	NL	69
D	2011	Automotive	State	40,000	Staid, agile, inclusiveness, harmony for the strong, magnanimity for going far	Joint ventures & CBMA	NL	750 (NL), 3,150 (global)
E	2012	Agriculture	Private	1,000	--	CBMA	NL	30 (NL)
F	2014	Agriculture	State	107,000	Integrity, team, professionalism, innovation	Joint ventures & CBMA	NL	3,700 (global)
G	2008	Construction machinery	State	27,000	Endless genuineness, for the sake of lasting	Joint ventures & CBMA	IT	1,100
H	2012	Entertain-ment	Private	46,000	Internationalization, innovation, integrity, for the sake of lasting	Joint ventures	US	18,550
I	2012	Construction Machinery	Private	>50,000	Hate laziness, self-reliance, faithfulness, giving thanks	Green-fields & joint ventures	GE	1,000 (GE), 2,000 (global)
J	2012	Online game	Private	20,000	Integrity, enterprising, cooperation, innovation	Strategic investment	US	255 (global)
K	2012	Novel clean energy	Private	15,000	Integrity, wisdom, inclusiveness, foresight, faithfulness, enterprising	Green-fields	GE	430 (global)
L	2012	Finance	State	4,600	Integrity, innovation, solidarity, dedication, excellence	Green-fields	FR	1,350 (global)

Table 5.2 Information on the direct participants in each case

ID	Position	Acquirer or acquired	Mode of contact
A-1	Director General	Acquirer	Face-to-face
B-1	Business Development Manager	Acquired	Face-to-face
B-2	Manager in Overseas Investment Department	Acquirer	Face-to-face
B-3	Manager in Overseas Investment Department	Acquirer	Phone
C-1	Head of Energy Department	Acquired	Face-to-face
D-1	Manager	Acquired	Face-to-face
D-2	Advisor	For acquired	Face-to-face
E-1	Local Dutch Director	Acquired	Face-to-face
F-1	Manager	Acquired	Face-to-face
F-2	Advisor	For acquired	Face-to-face
G-1	Head of Overseas Risk Management Department	Acquirer	Phone
G-2	Chairman of International Business Division	Acquirer	Phone
H-1	Project Manager	Acquirer	Face-to-face
I-1	General Regional Manager	Acquirer	Phone
I-2	Business Manager	Acquirer	Phone
J-1	Vice Manager in Investment Department	Acquirer	Face-to-face
J-2	Advisor	For acquirer	Face-to-face
K-1	Director in Human Resources	Acquirer	Face-to-face
L-1	Vice Manager in M&A Department	Acquirer	Phone

In addition to these direct participants, we also had interviews with 35 professionals. Those professionals were from a variety of segments related to Chinese CBMAs in Europe and the USA, such as law firms, investment or commercial banks, accounting and consulting firms, government, international chambers of commerce, international relation associations and non-governmental organizations (NGOs). Although not directly involved in the aforementioned cases, they serve as real-time observers and participants in Chinese CBMAs in general and thus have intuitive experiences. Their insights as they advance over time are conducive to the triangulation and the robustness of the findings. Table 5.3 provides the information on the professionals. Table A.2 offers more details about the professionals.

Table 5.3 Information on the professionals

Professional segment	Consultancy	Investment bank	Commercial bank	Policy bank & government agency	Business/cultural association & NGOs	Law firm
No. of interviewee	18	3	4	2	4	4

We employ two methods of data collection. The primary method is the semi-structured interviews. The semi-structured interview guideline covers mainly four broad questions: (1) the acquisition motivations of the acquirer and the acquired; (2) the differences between the acquirer and the acquired in terms of culture, resources and capability; (3) the integration process, including the integration of business, organization, and the strategy formulations by the acquirer and the acquired, respectively; and (4) the outcomes up to now. To ensure anonymity, the respondents were coded. Each interview lasted from 30 minutes to 3 hours. The interviews were conducted in Chinese, English or Dutch, either face-to-face or via phone. The interviews in Chinese and English were conducted by the author, who speaks Chinese and English, and the interviews in Dutch were conducted by Dutch-speaking students in the field of business studies. Most of the interviews were recorded and transcribed with the permission of the respondents. The non-English transcripts were translated into English and proofread by Chinese–English and Dutch–English bilinguals to ensure accuracy.

We also collected archival data from company websites, annual reports and press releases on the companies and the acquisitions involved in the research. We made an effort to obtain interview opportunities from both parties involved in each acquisition. However, due to the cross-border nature of the study, it was difficult to get interview permission from both sides of each particular acquisition. In the aforementioned cases, only Case B has full interview information from both the acquirer and the acquired. To offset this drawback and gain a comprehensive understanding, we used archival data to supplement the in-depth interviews.

In terms of data analysis, it followed replication logic across the multiple cases (Yin, 1994). Due to the richness of the information, Nvivo software was used to facilitate qualitative data organizing (Ghauri & Firth, 2009). To obtain adequate conceptual constructs, we conducted two steps of coding (Pratt & Foreman, 2000). In the first step, we coded relevant information and generated first-order nodes based on the respondents' narratives and archival data. In the second step, we synthesized these nodes into second-order constructs which were more abstract. Following an iterative process, we modified and enriched the first-order nodes until no meaningful constructs emerged (Eisenhardt, 1989). Table 5.4 presents quotations from primary data.

5.4 Empirical Results

5.4.1 The contradictions between CMNEs and DE-acquired companies: Status and vision asymmetry

5.4.1.1 Vision asymmetry

We find that goal complementarity, prior experience and cultural disparity together bring about the vision asymmetry, wherein CMNEs often think in the long term and acquired companies harbour a short-term vision on integration.

To be specific, first, in terms of complementary goals, the main motivation for CMNEs to internationalize relates to the acquisition of technology know-how. Chinese companies view the importance of innovation as a key factor. However, technology-intensive knowledge in China is still largely lacking. Meanwhile, CMNEs look for retail and distribution channels. In addition, acquiring those international brands can help CMNEs appeal to international consumers.

In terms of DE companies, they are financially more or less in trouble, thus driven by the urgent financing necessity in the first place. The financial markets in DEs are rusted at this point, while Chinese companies have surplus financial resources. The financial strength of DE companies will likely be impacted positively by the arrival of CMNEs. When capital is actively engaged, the product quality is optimized. The other bottleneck DE companies encounter is high production and personnel costs, and a certain degree of saturation in the market. If DE companies are taken over by CMNEs, it provides opportunities for them to share the cost advantage of production and expand their markets in China. Otherwise, as a foreign company without Chinese connections, it is difficult to enter China successfully. Taken together, Chinese companies engage in CBMAs with a long-term vision for knowledge-driven and capability-building motives, while DE-acquired companies are mainly motivated by rapid and short-term cost reductions and revenue increases through production and sale transfers to China.

Second, in terms of prior experience, failed acquisition experiences result in a cautious attitude by CMNEs towards the integration process. Instead of being in a rush, inexperience in global expansion inclines CMNEs towards slowing down the integration process.

Third, the cultural differences intensify the vision asymmetries. Specifically, from the Chinese perspective, the long-term vision of CMNEs towards CBMAs relates to the importance of building good relationships. The Chinese like providing all the space and opportunities to build such relationships. For example, Chinese parent companies and managers need to spend plenty of time getting to know the acquired companies in order to establish trust. That explains why Chinese people want to meet face-to-face and eat together. In contrast, this relationship building is perhaps seen as somewhat exaggerated by DE businesspeople.

The data also indicate that the core corporate value for most Chinese acquirers incorporates a philosophy of long-term thinking, oriented by honesty and harmony (Table 5.1). This corporate value is also reflected in Chinese CBMAs. After acquisitions, CMNEs have the mind-set of showing their benevolence towards, respect to, and maintaining harmony with the acquired companies. By contrast, it is difficult to find a Western company that has such patience.

Moreover, the differences in the national governance environments, corporate structures and decision-making processes lead to the long-term vision of CMNEs. First, it is an evolving process to improve the regulatory framework and the enforcement to build a transparent governance system in an emerging economy. Chinese companies therefore tend to depend on relation-based governance, such as interpersonal *guanxi* to protect their interests. Differently, DEs have developed a sound legal system which is more transparent and reliable, thus resulting in rule-based corporate governance (Li et al., 2003). Second, there is a huge disparity in terms of firm scale between Chinese acquirers and acquired companies (Table 5.1), which leads to significant differences in corporate structure. For example, the large size causes more hierarchical management layers in CMNEs, while the lines of DE companies are shorter. This thus gives rise to differences in decision-making processes. In general, DE companies are non-bureaucratic, flexible and direct in terms of decision-making. Employees are confident with all kinds of micro-management decisions. Only when it comes to a very important decision does it need approval from top management. However, CMNEs apparently do not function in a similar fashion. They generally take a longer time to reach a decision.

These disparities trigger the incompatibility between CMNEs and DE companies. This finding confirms the prior research on Chinese CBMAs. For example, Spigarelli et al. (2013) found that the action efficacy in the international arena is usually constrained by the organizational structure of Chinese conglomerates. Hirt and Orr (2006) insist that the centralized decision-making system in many Chinese companies is incompatible with global business. Notably, if CMNEs do not follow the international rules of the game, they simply cannot compete with large international conglomerates. However, it takes time for CMNEs to understand and play the international rules of the game appropriately and expertly. Therefore, the incompatibility intensifies the long-term vision of CMNEs.

5.4.1.2 Status asymmetry

Contrary to the argument about the identity similarity attractiveness and dissimilarity repellent, large disparities in culture and identity lead to neither strong resistance from acquired companies nor to any great worry in the Chinese acquirers about losing their leadership position. Many DE-acquired companies see Chinese acquirers as appealing and find that the acquisition is an opportunity to enhance their capacity through these affiliations. This unexpected finding is due to the missing link of the perceived status by both parties. Despite the dissimilarities, CMNEs are perceived as marginally equivalent in status by DE companies, and despite their superiority in terms of size and financial power, aggressiveness and arrogance are absent in CMNEs. Instead, the acquired companies are seen as having a marginally higher status by CMNEs.

This status asymmetry, first, derives from different prior experiences between CMNEs and acquired companies. On the one hand, the previous coercive integration approach leads CMNEs to form their current status perception. Early anecdotal evidence shows that many Chinese acquirers failed in their CBMAs through a form of coercive integration. After obtaining the technology, Chinese companies thought that they could undertake R&D by themselves, so they cut down on the R&D costs in the acquired companies. Meanwhile, they assigned Chinese management teams to manage the acquired companies. In the end, this tactic resulted in more investments in R&D and higher core personnel turnover. Looking back at the failed acquisitions, Chinese companies have become aware of their shortcomings and have reshaped their thoughts. An increasing number of Chinese managers realize that the fate of CBMAs is highly dependent on the people in the acquired companies.

On the other hand, prior collaboration experience leads acquired companies to perceive of Chinese companies as less low in terms of status. In Cases B, D, G and J, the acquired companies had been business partners with their Chinese acquirers for years, thus they had known the acquirers before the acquisitions and were more or less familiar with Chinese culture and etiquette. These prior collaboration experiences, to some extent, lay the foundation for respect and trust. This further results in an open mind being acquired by CMNEs.

Second, the asymmetries of CMNEs and DE companies in terms of their respective advantages (Madhok & Keyhani, 2012) alleviate the inequivalent status, if it did indeed exist in the first place. The abundance of financial resources for innovation, the appealing Chinese market and the low production costs make China an ideal acquirer of DE companies. Through these acquisitions, acquired companies may well hit three birds with one stone. Considering all these aspects, CBMAs are a brilliant move for both parties. Clearly, there is an interdependence in that each party wants to possess the incomparably valuable assets of their counterparts. A direct consequence is that both parties work together equivalently.

Third, cultural dynamics over the past decade have changed the perception of DE companies. They do not indulge in their superior status, belittle or show their hostility towards CMNEs; instead, they construct a sense of proximity.

In summary, DE-acquired companies seem not to perceive of themselves as extremely high in status and do not perceive of the acquirers as extremely low in status. Meanwhile, CMNEs do not view themselves as highly superior and do not view DE-acquired companies as inferior in status. In light of these findings, we put forward the first set of propositions as follows:

> Proposition 1a. *The objective antecedents fundamentally lead to the vision asymmetries between CMNEs and DE-acquired companies: to be specific, the relatively long-term vision of the former and the relatively short-term vision of the latter.*

> Proposition 1b. *The objective antecedents fundamentally lead to the status asymmetries between CMNEs and DE-acquired companies: to be specific, a marginally (instead of significantly) lower status of the former perceived by the latter and a marginally (instead of significantly) higher status of the latter perceived by the former.*

5.4.2 Top-down effortless integration

Given the long-term vision, CMNEs incline towards self-effacing learning from acquired companies during integration, instead of deliberating on generating more sophisticated tactics for the integration. Meanwhile, their self-perceived marginally lower status reinforces this modesty. More importantly, this action rightly corresponds to the intention of marginally higher status acquired companies, who would like to maintain their influence over the core business.

The status asymmetries and the CMNEs' long-term vision revealed in the subsequent integration is top-down effortless integration. In all cases, there were no plant closures so that R&D and innovation were kept in the acquired companies. In addition to the establishment of a supervisory and advisory board, little had changed. Meanwhile, no layoffs took place. In this way, the acquired companies operated independently, while the Chinese acquirers kept themselves in the background and stayed as low as possible on the radar.

However, this kind of "effortless integration" does not mean a laissez-faire approach. The long-term vision meant that CMNEs interfered through the back door. For example, the strategy made by acquired companies had to be approved by parent companies. In other words, if the business plan of the acquired companies was inconsistent with the long-term development direction of the Chinese acquirers, the latter had the right to turn it down. The key managers of the acquired companies needed to be present in China a number of times each year to be accountable. Moreover, a limited number of managers were sent from the parent companies. The Chinese managers kept an eye on the acquired companies and took charge of reporting.

Besides, some incentive mechanisms and intergroup contact projects that were designed for the integration somewhat alleviated the denigration and the "fear of contamination" of the higher status acquired companies. In Case H, for example, the acquirer offered 10% of the profit of the acquired company as a reward to the top executives in the acquired company. An exchange project is underway in Case A: five employees from the acquired company, including a Dutch project manager and a German business affairs manager, have moved to China for a period of three years. They are going to China for two reasons: first, to keep a finger on the pulse, and second, to bring some Western culture to the Chinese acquirer. Meanwhile, a number of Chinese employees will be going to NL to work in R&D teams for a temporary period. Although the exchange project may not build a sense of shared identity immediately, the exchange and the frequent visits to China are conducive to smoothing the integration process.

The above analysis has shown that the status and vision asymmetries between CMNEs and DE-acquired companies led to an effortless integration by the CMNEs. To a large extent, effortless integration ensured stability during integration. For the acquired companies, the Chinese acquirers were only new owners who posed little threat; moreover, the capital was invested lengthily. Thus, the acquired companies became less defensive. Not only that, the interview data indicate an introspection in the acquired companies, which somewhat accelerates the acculturation. Most interviewees found it a fundamental misconception in that they had overestimated the negative pressure that CMNEs would put on the Western markets after the acquisitions. As a result, the credibility of the Chinese acquirers automatically increased.

The results suggest that top-down effortless integration does not fully reflect the reality of Chinese CBMAs. In fact, the integration process is far more than that. In our cases, the Chinese acquirers’ long-term vision but fuzzy short-term objectives and the subsequent effortless integration became a challenge to integration. It is difficult for CMNEs to formulate appropriate short-term goals that are in line with their long-term vision. This leads to certain ambiguity in terms of strategic objectives and integration plans. Case B may illustrate the situation: the realization of synergy potential (combining China’s advantageous costs with the DEs’ competitive advantages) required a manufacturing relocation to China. The headquarters thought that the acquired company should make a plan and arrange the relocation, while in the view of the acquired company there should have been someone from headquarters taking the lead to start work on the relocation. The integration ambiguity further increased the scepticism in the acquired company about the integration purpose of the acquirer. In particular, the acquired company became concerned that when the acquirer had mastered the knowledge of the R&D and technologies a few years later, the assets of the acquired company would no longer be attractive.

Moreover, cultural confusion existed in communication. It is always frustrating for acquired companies to attempt to have transparent and full communication with their Chinese parent companies. Sometimes, it was difficult to tell headquarters what had gone wrong. Managers from the acquired companies admitted that it would harm the *mianzi* (or face) of the top management at headquarters who had actually made the wrong decisions. Additionally, acquired companies often felt the hypocrisy of the Chinese headquarters in terms of integration decision-making. Managers in the acquired companies indicated that their Chinese colleagues were reluctant in making decisions and always asked for approval from headquarters. This naturally resulted in enforcement delays, since the permissions from China often took much time. What was even worse was that the headquarters occasionally rejected proposals. According to these findings, we derive the following generalization:

> Proposition 2a. *The status and vision asymmetries between CMNEs and DE-acquired companies are more likely to result in a CMNE effortlessness during integration. This top-down effortless integration functions as an integration stabilizer and acculturation accelerator, but also creates ambiguity, cultural confusion and organizational hypocrisy.*

5.4.3 Bottom-up reversion

Despite the integration problems, the interviewees suggested that the acquisitions had achieved integration to varying degrees. Surprisingly, top-down effortlessness by Chinese acquirers created reversal room for ideas and solutions from the acquired companies. Specifically, acquired companies played an active role, taking matters into their own hands, with a focus on proactive task integration and cultural void filling.

Case A provides an illustration of these actions. To overcome the integration ambiguity, the acquired manager started to assume a two-year interim plan. It helped to straighten out the long-term intentions. Regarding the cultural confusion and the following discomfort and scepticism within the whole of the acquired company, the managers jointed a course called “How to Deal with Chinese Companies”, made a summary and distributed it to the employees so that they could understand Chinese culture better. This action has been of great value according to Interviewee A.

Case B also manifests itself in the acquired company’s reverse actions. Ambiguity was the greatest challenge for the acquired company. As such, the pressure of relocation lay within the acquired company. The Dutch acquired company made the relocation plan: the employees working in production were to be employed in different functions through retraining. In this way, the acquired company kept the talent and knowledge of its employees for innovation within the company. As for cultural void filling, the acquired company cooperated with a local business promotion agency: the Brabant

Development Agency. The agency is focused on intensifying the relationships between Dutch companies in Brabant Province and Chinese companies. The acquired company shared its experience and got support from the agency to solve the problems. Currently, the acquired company is spending time and effort in visiting China and having face-to-face meetings with the headquarters' top managers. In so doing, the acquired company has gained commitment from headquarters so that the move has proceeded carefully. One direct consequence is that there will be capital and employees available in the acquired company to really focus on innovation.

The above analysis illustrates that Chinese CBMAs not only manifest in a top-down effortless integration initiated by CMNEs, but also in a bottom-up integration conducted by DE-acquired companies. Interestingly, the acquired companies' actions did not lead to destructive effects; instead, they brought about certain constructive effects. This finding confirms the assertion of Graebner and Eisenhardt (2004) and Graebner (2004) that the acquired company plays a significant role in determining the acquisition outcome.

Arguably, the higher status position and short-term vision naturally endow the initiatives to acquired companies. However, the constructive initiatives are only potential initiatives in the absence of the acquirers' actual effortless integration. Therefore, we believe the aforementioned asymmetries make the reverse actions' potential, while the effortlessness of Chinese acquirers enables the potential to happen:

> Proposition 2b. *The effortlessness of CMNEs in the CBMA integration is likely to initiate bottom-up reverse actions from acquired companies, such as proactive task integration and cultural void filling, which in turn is conductive to the integration.*

When it comes to this bottom-up integration, prior studies see it as unexpected and as a last resort only if top-down initiatives fail to attain the desired integration outcomes (Colman & Grogaard, 2013). Differently, bottom-up integration seems expected by CMNEs in our cases. Instead of desperately forcing the integration and acting against the willingness of acquired companies in their desire to achieve acquisition synergies, CMNEs free themselves from frustration, burdens and stress, and embrace contradictions. Through fully considering and understanding the feelings of the acquired companies, putting up with time losses and temporary losses such as integration ambiguity, and by not being forceful, the willingness of the acquired companies is cultivated and the integration is achieved effortlessly. The findings suggest the following proposition:

> Proposition 2c. *The integration of Chinese CBMAs in DEs is a combination of top-down effortlessness and bottom-up reverse integration.*

Table 5.4 The antecedents, top-down effortless integration and bottom-up reverse integration

First-order construct, selective empirical evidence and exemplifying quote	Second-order theme
Complementary goals *The acquired company is relatively small in terms of its strength. It is difficult to obtain a large number of orders. We hold a leading position in the Chinese market with a high reputation and popularity, a wide range of channels and good customer relations. All of these can be conducive to the business development and access to the Chinese market of the acquired company, and help it to strengthen its competitive position.* (Interviewee B-2) *The acquired company has a very powerful marketing system that has marketing teams distributed in more than 100 countries in the world, and 95% of its market shares come from the overseas market (out of Germany). This is very important to us. In addition, it has strong competitiveness in terms of core technologies, which is, to a great extent, of particular significance to us.* (Interviewee I-2)	Objective antecedents
Previous experience *70% of acquisitions by Chinese companies have failed in the past. We thought we knew everything, we sent management executives to the acquired company, which led to the failure …. We need help from the acquired companies we take over.* (Interviewee I-2) *This (prior) cooperation lays a good foundation of trust and understanding with the acquirer, and creates a good atmosphere of communication. So we have a feeling of hitting-it-off.* (Interviewee B-1)	
Cultural differences & dynamics *Our core value is "endless genuineness for the sake of lasting". We show our commitment to the target company. We told the target company that we were here not for economic or cultural colonization, but to build a broader Roman road with Italians.* (Interviewee G) *In the 1990s, Westerners were very conservative in terms of their ideology. When they heard that China had come to acquire their firm, they were very offensive and hostile. Now, more and more Americans and Europeans have gradually erased this ideology. One has markets and capital, one has technical and management experience, why not come together to make money, why not? ... It is interesting that when Shuanghui acquired Smithfield, the mother of the Chairman of Smithfield asked, "Why do you sell Smithfield to the Communist Party?" The Chairman said, "We are trained to dislike and distrust China."* (Professional)	
Status asymmetries *The skewed balance in terms of status is not possible. Chinese and Dutch managers have different backgrounds and views, and therefore approach things differently. Although the Chinese have a respect for traditions, they are especially practical and motived by making money. In that sense, you can go far simply by having a rational conversation, despite the cultural differences and the language barrier. It is not much different.* (Interviewee C)	Subjective perceptions

Table 5.4 (*Continued*)

First-order construct, selective empirical evidence and exemplifying quote	Second-order theme
The acquirer has become clear that we are a good company with valuable assets. There are a lot of demands worldwide … That (the acquired company's) focus is mainly directed towards Asia … There are not many comparable entities, then you go into that acquisition equivalently … We and the acquirer really want to work well together in the future. Therefore, there is no question of an imbalanced status. No, that is absolutely not the case. (Interviewee F)	Subjective perceptions
Vision asymmetries *The copying/stealing of technology can create a quick profit in the short term. However, once the technology is outdated, the Chinese company will have to hit the road again for new technology, which may cost them more. Therefore, the Chinese company just invests in the target with a long-term strategy, for a knowledge-driven and learning motive which always takes longer. Anyway, they clearly understand that it is an important learning process.* (Interviewee C) *There is a difference in long-term thinking and short-term action between the Chinese and Westerners. The Chinese think more of five to ten years from now, rather than in the next year. The Chinese are often not as resolute as Westerners are. Their action in the sales process is often too slow compared to Westerners.* (Interviewee D-2)	
Light-touch on the core business *The R&D has not moved to China; we continue to do R&D in the Netherlands.* (Interviewee A)	Top-down effortless integration
Keep independence & autonomy *We get our budget from the acquirer, but we still function as a separate entity, and will remain so. So we have to seek customers and earn revenue … There are plenty of our own initiatives and we are not hindered in formulating a strategy … During the acquisition, the acquirer insisted that our two management directors should not abandon the company but should stay for at least three years after the acquisition …* *After nearly four years, these two directors are still working for the company.* (Interviewee B-1) *We try to retain the core management team and key staff, and adopt the local corporate governance of the board, instead of directly being involved in the operation.* (Interviewee B-3)	
Back-office involvement *I have a shadow general manager. He is a very nice Chinese guy. He is actually only a kind of spectator to take care of explaining to both sides. He understands everything but does nothing except continuously report to headquarters and describe what we are doing …* *We meet occasionally.* (Interviewee A) *We respect the management of the acquired company, but this does not mean having a laissez-faire attitude. We set up the rules; they behave according to the rules. We try to build an orderly business operation, so as to achieve the desired state of the acquisition and integration in the long term.* (Interviewee G-1)	

First-order construct, selective empirical evidence and exemplifying quote	Second-order theme
Integration stabilizer *The flow of money from China remains intact for the future investments in the acquired company. This will maintain us healthily for longer. I think the "unofficial" strategy will just have a positive effect on the acquired business over the long term. The management will lead the acquired company as sustainably as possible.* (Interviewee C)	Benefits & problems of top-down integration
Acculturation accelerator *There is sometimes a misperception that Chinese companies buy the knowledge and technology and take it away from the Netherlands. I think we do not need to see that in this way. They pull knowledge and technology out of the Netherlands. The investments by the Chinese in Dutch companies is a sign of trust in the local companies.* (Interviewee D-1) *We should abandon the fear. The company (taken over by the Chinese acquirer) is less in danger than when Western investors just want to restructure … Balanced cooperation with the acquirer can mutually create a win–win situation.* (Interviewee E)	
Ambiguity *But subsequently how to transfer, how to do that and how to develop a strategy for both sides, so that it is beneficial for both the Chinese and Dutch sides, nobody had thought of that.* (Interviewee A) *Indeed, it is often difficult to figure out exactly what they want and who decides.* (Interviewee D-1)	
Cultural confusion *In Chinese culture, people cannot confess guilt, because people are afraid of losing face (mianzi). This leads to the difficulty in communicating with the Chinese company normally and transparently about what it needs. That is frustrating.* (Interviewee A)	
Hypocrisy *We find it logical that if we jointly agree on certain topics, we can draw a line and go through other things. The Chinese are apparently not so, suddenly all kinds of precedents are again under discussion.* (Interviewee D-1)	
Proactive task integration *We proposed to start up a joint venture in China, where we would transfer our knowledge. We let large bulk items be produced in China and smaller series items be produced in NL. In so doing, the products that had not been commercialized very well have finally made a significant leap in sales. Also, we have a bit of flexibility and less product stock, resulting in a healthy business.* (Interviewee A)	Bottom-up reverse integration
Cultural void filling *We hold an inclusive attitude, and behave in a responsible manner … Our way of management is in showing trust, full decentralization and harmonic operations. I think such a way fits all cultures, since the core of all cultures is the same: you respect people, people will respect you.* (Interviewee G-1)	

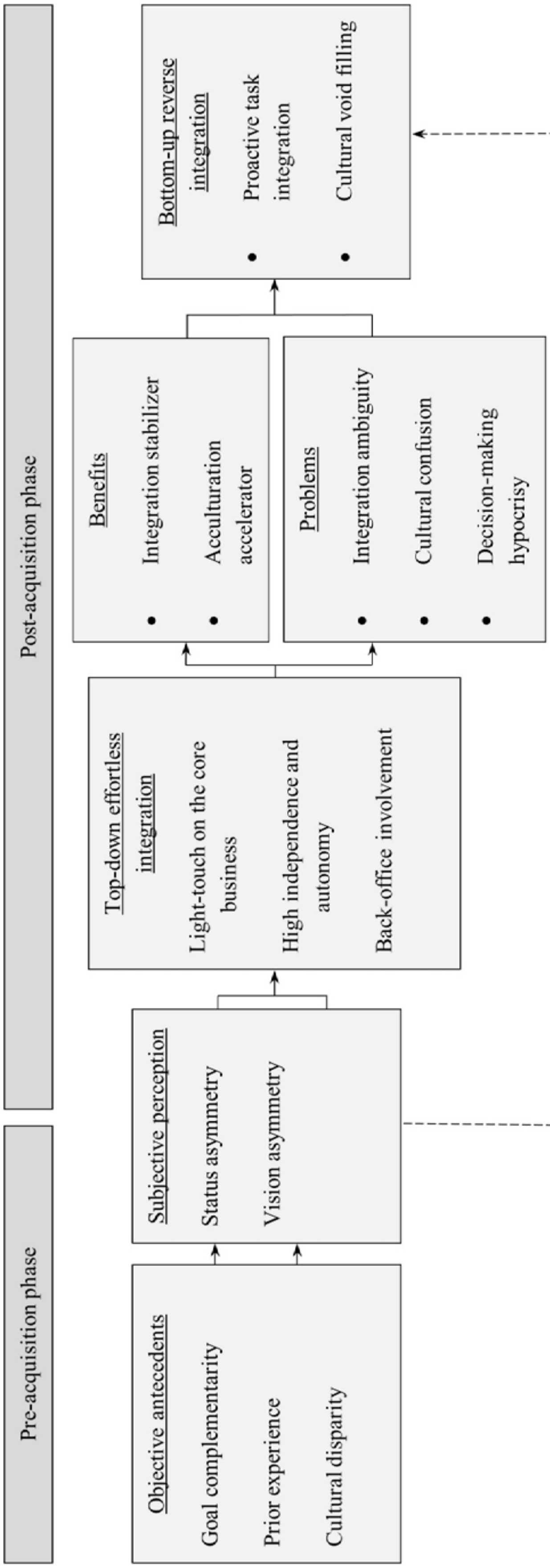

Figure 5.1 Model of Chinese CBMA Wu Wei integration

5.5 Discussion and Conclusion

This study has taken a Chinese indigenous paradigm on the post-acquisition integration process of Chinese CBMAs in DEs. The evidence presented in this study provides a counter-weight to the popular acquirer-centric, efficiency-focused and task-oriented structural integration models. By blending our findings, propositions and identified constructs in a cross-case analysis, we closed the missing links and offered a nuanced understanding of CMNEs' post-acquisition integration in DEs. Furthermore, a unique Wu Wei model of Chinese CBMA integration processes in DEs emerges. See Figure 5.1.

5.5.1 A Wu Wei paradigm of Chinese CBMA integration

The CMNEs' integration process re-examined here suggests an alternative process. We show that the integration approach adopted by CMNEs is not a direct result of objective realities, but of the subjective perceptions towards the objective antecedents. The subjective perceptions of CMNEs and DE companies on the integration have largely been characterized by a strong degree of contradiction. Facing this, CMNEs embrace the contradictions and engage in a "go with the flow"-oriented integration process. Instead of exclusively focusing on efficiency, or dis-appreciating the involvement of acquired managers through conventional structural integration, CMNEs harbour a long-term vision and value the input of acquired companies, which is typically harmony-oriented with an inclusive mind-set.

Here, Chinese CBMA integration in DEs reveals an intriguing Chinese indigenous Wu Wei management philosophy. Interestingly, the logic behind this integration process coincides with the core principles of Chinese Taoist philosophy: *Wu Wei* and *reversion.* Using *Wu Wei* and *reversion* as metaphors in Chinese CBMAs, the effortless post-acquisition integration by CMNEs (seen as a weakness) actually promotes the integration through the reverse actions of acquired companies (seen as strong). The constructive reversion is a consequence of effortless action (Ames & Hall, 2010). Interviewee I-2 might explain the idea of effortless integration from a philosophical level: "You are not able to hold it very well if you hold it tight." Therefore, borrowing from Chinese Taoist philosophy, we conceptualize Chinese CBMA integration as a Wu Wei process.

5.5.2 Implications for theory: To be effortless, not effortful

A key theoretical contribution is in reframing post-acquisition integration. From the Chinese "go with the flow" view, post-acquisition integration manifests itself in an effortless and Wu Wei process that is shaped by considerations of the reconciliation of conflicts. This is obviously in opposition to the conventional literature associated with post-acquisition integration from a structural perspective. In Wu Wei and effortlessness, in contrast with an acquirer-centric effortful integration, integration is not a consequence of objective realities considered and interpreted by only the acquirer. Rather, it is the result of subjective perceptions of their relative status and vision by both the Chinese and the acquired companies. Prior literature on structural integration suggests an advantage-ready precondition, such as sufficient capacity, successful experience and the subsequent high status for the integration. Yet this precondition does not apply in China's case. From the lens of DMNEs, the insufficient capacity, failed and/or unexperienced conditions would not have promoted CBMAs; if it were the case, CMNEs would have fostered more endeavours and put in more effort towards integration. Clearly, getting beneath the dominant objective antecedents and acquirer-centric perspective to explore the fine-grained perceptions of both parties is conducive to understanding why prior CBMA studies have not yielded congruent results. Contrary to the typical structural integration that makes use of advantages, pushes change and tries to conquer the paradox, the "go with the flow" view and Wu Wei allow CMNEs to lay down their status with a more forward-looking view.

Instead of predefined tasks and *a priori* known areas for change, Wu Wei and effortlessness imply that the "grey box" of Chinese CBMAs cultivates the potential strength for CMNEs and enlightens the most appropriate problem-solving during the integration process. In line with the prior benefit-based studies, top-down effortless integration can release acculturative stress among the workforce in the acquired companies and benefit the strategic asset-seeking objectives of CMNEs (Zheng et al., 2014). While different from the overwhelmingly benefit-based perspective on Chinese effortless integration, this study underlines the relevance of an integrative perspective on the CBMA integration process by exploring the integration issues underlying the effortless integration from a problem-based perspective.

Wu Wei and effortlessness also stress the importance of DE-acquired companies. To be specific, acquired companies take reverse actions to respond to the Chinese acquirers' effortless integration by proactive task integration and cultural void filling. This reverse action is acceptable to CMNEs, which explicitly deviates from acquirer-centric structural integration, in line with the inclusive mind-set in the Chinese Wu Wei paradigm.

5.5.3 Implications for practice

As far as practical implications are concerned, first, the findings on the Chinese CBMA integration process imply the importance of contact. Both Chinese acquirers and acquired companies should not refuse, but should create opportunities to visit and meet with each other. Through Westerners' frequent visits to China and the Chinese being received regularly in the target countries, prejudice will weaken while mutual understanding will develop. Second, we see the value-added role of middlemen at the interface of the cultural middle (Feldman, 2013). In our study, the middleman is represented by the cultural and business development agencies, such as the Brabant Development Agency. Both the Chinese and DE companies should attach importance to professional services for filling in the cultural gaps between both parties. Third, the Wu Wei integration approach may have its limitations. Wu Wei integration requires acquirers to be involved with a higher tolerance for ambiguity and for them to resist the impulse to foist significant changes on the acquired companies, despite the enormous synergy potential. Meanwhile, it also requires the acquired companies to believe in long-term benefits and for them to have a great willingness to collaborate. While some companies have already had these traits since their birth, others will have to develop them.

5.5.4 Implications for future research

This study is essentially an exploratory one, analysing an area which is newly emerging and generally understudied. Thus, further research is required. The first suggested work is undoubtedly to offer more comprehensive evidence and details in order to test the degree to which this framework and these findings can be generalized. In particular, does it also apply to Western companies conducting CBMAs? Some researchers have suggested that the novel integration approach is applicable and can be generalized to Western companies (Kale et al., 2009). Take the merger between Air France and KLM, for example. After the merger in 2004, Air France-KLM Group as a listed holding company adopted a "one group, two airlines, and three services" model, retaining their respective logos, trademarks, brands and independent operations in passenger transport, freight and maintenance services. In particular, the integration of the Air France-KLM Group is manifested in its people-oriented strategy which avoided layoffs after the merger. Such novel integration between Air France and KLM has greatly changed the rules of game (*The Economist*, 2003). However, the starting point of the Wu Wei integration framework in our analysis is the unique objective and subjective premises underlying Chinese–DE CBMAs at this time. This Wu Wei integration also has its roots in ancient Chinese philosophy (Chen, 2002). If it does apply to CBMAs by and between Western companies, what are the antecedents and management philosophies underlying it? And what are the commonalities and differences between the influences of Chinese and Western management philosophies in their international business activities? We believe that by so doing, these studies will advance our understanding of the cultural roots of strategies in international business literature.

Second, this study proposes that top-down effortless integration triggers the bottom-up reverse actions, which is conductive to integration to some degree. Yet, can the reverse actions of acquired companies be fulfilled smoothly and can it lead to better performance? Given the short history of the present integration, it is too early to reach concrete conclusions. Thus, more longitudinal studies will be valuable in the future.

Last, our respondents represent the upper echelons of acquirers and/or acquired companies. However, the upper echelon theory somehow glorifies elites, since elites are still humans, thus susceptible to fatigue, boredom, jealousy, cognitive biases and selfishness (Hambrick, 2007). Therefore, although they are the major decision-makers in acquisitions and integrations, the information they provide may be biased and deserves scrutiny. We believe that the role of employees in basic divisions in acquired companies is also very important to integration. Importantly, the combined information of both the upper and lower echelons may help us to obtain a relatively true integration story. Thus, future studies should seek to integrate more direct input from the lower echelons.

CHAPTER 6

Discussion and Conclusion

This thesis sheds light on an emerging phenomenon, Chinese outward mergers and acquisitions (M&As), which might be a vehicle for deep contextualization research. In particular, this thesis aimed to explore the role of the Chinese government as well as the actions of Chinese companies in outward M&As. The four chapters suggested the ambivalence of both the government and Chinese companies. The findings and implications are discussed in more detail below.

6.1 Findings

Chapters 2 and 3 explore the role of the Chinese government in Chinese outward M&As. Chapter 2 explores the role of the Chinese government in China's technology innovation process. The case study suggests that the government has led the transformation of China's high-speed rail (HSR) technology development. To be specific, the government has assumed an entrepreneurial role and is alert to the opportunity in developing high-risk HSR technologies. Furthermore, the government has performed resource exploration and resource consolidation in order to exploit the opportunity. In addition, the successful opportunity exploitation over time is attributed to the government's strategic learning. In so doing, the technology innovation opportunity can be exploited appropriately and effectively. In short, this chapter indicates the positive side of the You Wei government on technology innovation.

Chapter 3 examines whether the financing of Chinese outbound M&As is distorted between state-owned enterprises (SOEs) and privately owned enterprises (POEs). An empirical study using a dataset of 224 outbound M&A deals was conducted. The results show that compared with POEs, SOEs enjoy a higher level of financing capacity in terms of debt and equity, although SOEs demonstrate a lower level of performance. This finding implies that there are financing distortions in Chinese outbound M&As. Furthermore, the financing distortion leads to a "fictional" prosperity for SOEs, since state ownership compensates for the poor M&A performance of SOEs through positively moderating the effect of debt financing. In short, Chapter 3 suggests a negative aspect of the You Wei government on outward M&As.

Chapters 4 and 5 aim to explore the strategies of Chinese multinational enterprises (CMNEs) in dealing with their outward M&A activities. Chapter 4 studies an overlooked phenomenon of the legitimization process of Chinese outbound M&As. The study finds that different from developed economies (DEs) where real stakeholders are predominant, in China, the institutional investors, the government and officials as stakeholder-watchers and stake-keepers are more salient in determining M&A legitimacy. Meanwhile, although the government plays multiple roles as stake-keeper, stake-watcher and a real stakeholder simultaneously, the multiple roles need to be treated independently in the legitimization process of outbound M&As. CMNEs tend to adopt manipulation, negotiation and adaption towards real stakeholders, stake-watchers and stake-keepers, respectively. Overall, this study suggests You Wei CMNEs.

Chapter 5 takes a process-based perspective on the post-acquisition integration process of Chinese cross-border M&As (CBMAs) in DEs. The study attempts to provide a counter-weight to the structure- and rationale-based integration models that dominate the CBMA literature. First, the study has distinguished objective stereotypes that exist in Chinese–DE acquisitions, and the subjective perceptions of their relative status and visions between the Chinese and the acquired companies. It suggests that it is not these objective antecedents and significant disparities per se, but rather the interpretations of these antecedents held by acquirers and acquired companies that play a significant part in the shaping of their managerial responses. Second, this study also identifies the pros and cons of Chinese effortless integration and poses the subsequent bottom-up reversion by acquired companies. Contrary to the You Wei companies revealed in Chapter 4, Chapter 5 sees an intriguing Wu Wei CMNE on the Chinese CBMA integration process in DEs.

6.2 Implications for Theoretical Development

6.2.1 The ambivalence of the government

Chapter 2 contributes to the literature by building a conceptual framework of the emerging economy "entrepreneurial state" along three dimensions: alertness to opportunities; resource exploration and consolidation; and strategic learning. Although some of these aspects have been recognized in the prior literature, little research has been done to illustrate their relationship systematically. As for alertness to opportunities, as the essence of entrepreneurship, it informs the government of the pursuit of technology innovation opportunities to enable it to achieve its grand geopolitical ambitions. As for resource exploration and consolidation, it helps us better understand how the opportunities can be exploited by the government. As for strategic learning, it is suggested that the opportunities being able to be exploited over time are due to the government's continuous assessment of the current resources and capabilities, and the observation of the dynamic environment.

Prior research in outbound M&As generally considers debt financing either as a homogenous factor or as a background factor. Chapter 3 brings debt financing to the foreground and captures the moderating effect of state ownership on the strength of debt financing in the performance of outbound M&As. In so doing, it uncovers the heterogeneity of debt financing in Chinese outbound M&As. In the classical literature, debt financing operates as a device to discipline managers and is regarded as an important driver of investment efficiency (Martynova & Renneboog, 2009). The analysis of this research subverts this theoretical prediction and denies the disciplining function of debt financing in China. Rather than the disciplining effect, the financing discrimination impact drives the positive effect of debt financing on the performance of outbound M&As.

6.2.2 The ambivalence of CMNEs

Chapter 4 contributes by extending the literature concerning Chinese outbound M&As from motivations, drivers to the legitimization process and the interactions of stakeholders. Notably, the legitimization process of Chinese outbound M&As subverts some of the Western traditions. First, different from DEs where real stakeholders are predominant, the institutional investors, the government and officials as stakeholder-watchers and stake-keepers are more salient in determining the M&A legitimacy in China. Real stakeholders are likely to be supportive throughout the legitimization process, while stake-watchers and stake-keepers may well be a threat to the legitimacy of M&As. Second, the government plays multiple roles as stake-keeper, stake-watcher and a real stakeholder. Prior research argues that the complex multiple identities of the government have either a longboard or barrel effect on the performance of Chinese companies. If the advantages outweigh the disadvantages, it will positively affect corporate performance, otherwise, negatively (Zhou, Guo, Hua, & Doukas, 2015). From the stakeholder perspective, however, the multiple identities of the government need to be treated independently in the specific case of the legitimacy of outbound M&As. Failure in managing any individual function of the government may lead to the failure of outbound M&As. Third, this chapter implies the specific institutional environment as a constraining condition for strategic actions. Born in a transition economy, CMNEs are bound to take strategic actions differently from developed rule-based economies. To be specific, facing the institutional voids of formal regulations, CMNEs adopt an adaptation action rather than simple compliance, avoidance or resistance to the formal rules. In so doing, they tend to achieve the objectives by positively coping with institutional loopholes in China. To some extent, negotiation is a process to build informal relationships, interpersonal trust and to gain recognition. This is particularly true in the interactions with the government agencies and officials. When the institutional environment cannot provide a sound framework and effective legal execution, individuals and organizations tend to take relation-based actions to respond to the voids and protect their interests.

Borrowing from Chinese Taoist philosophy, Chapter 5 conceptualizes a Wu Wei model of Chinese CBMA integration. When examining the whole process from objective antecedents, status and vision asymmetries, to top-down effortless and bottom-up reverse integrations, the logic behind Chinese CBMA integration coincides with the core principles of Chinese Taoist philosophy: *Wu Wei* and *reversion.* In Taoism, *Wu Wei* means non-action or effortless action, which can be interpreted as “going with the flow”. It is not a state of absence fuelled by sloth or fear of failure, but is a profound state of being inclusive, soft and having a willingness to accept, not just tolerate, not knowing, chaos and contradictions. It is also a state of not being attached to results. Taoism believes that by doing so, a solution will emerge naturally, which is related to the other principle: *reversion.* Reversion is seen by Taoist sages as a law of nature: pursuing the strong too actively may run counter to the desired effect, while holding onto weakness so that one might be strong, in the long term, is beneficial. Constructive reversion is a consequence of effortless actions. Using *Wu Wei* and *reversion* as metaphors in Chinese CBMAs, effortless post-acquisition integration by CMNEs (seen as a weakness) actually promotes integration through the reverse actions of the acquired companies (seen as strong). The whole process obviously goes against the Western concept of planning, efficiency, task-focus and setting objectives or measuring “success”.

In summary, the studies to some extent seem to reflect the ambivalence of the government and Chinese companies in the context of outward M&As. While the Chinese government shows a You Wei attitude towards outward M&As, You Wei acts on outward M&As in an ambivalent manner. On the one hand, the You Wei government positively facilitates outward technology exploration as an essential part of the technology development in China’s HSR industry; on the other hand, the You Wei government distorts the capital allocation for outward M&As between SOEs and POEs, and compensates for the loss of SOEs through low-cost debt financing. Similarly, Chinese companies behave ambivalently towards outward M&As. On the one hand, Chinese companies display a You Wei strategy, proactively coping with the various domestic stakeholders in the M&A legitimization process; on the other hand, they manifest a Wu Wei action, effortlessly dealing with post-acquisition integration in DEs. Overall, the thesis signifies the ambivalence of outward Chinese M&As, characterized by a "both/and" and interdependent opposites' paradigm.

6.3 Implications for Practice

This thesis provides some policy implications. From the policymaking perspective, the Chinese government has regarded outward M&As and outward foreign direct investment (OFDI) as an integral route for China to obtain technological and managerial resources from DEs and thus benefit China through enhancing national competitiveness (Luo et al., 2010). It is therefore of great importance for policy makers to formulate effective and sensible OFDI policies that truly motivate CMNEs, both SOEs and POEs, to venture abroad. By so doing, it would be conducive to achieving the global success of the CMNEs and ultimately fortifying the national interests of China. Moreover, it might be good timing for Chinese and other emerging economy governments to promote their companies to go global in the face of the current global economic meltdown, the tight funding and the present organizational restructuring that is ongoing in DEs. The emerging economy governments should seize this opportunity and provide prompt policies to foster their companies to carry out outward M&As.

The "entrepreneurial state" has facilitated Chinese outward M&As. Is it therefore an experience that other emerging economy states should value and learn from? I would say that it might be difficult for other countries to replicate. First, this is attributed to the specific political and economic system in China in that the Chinese government has a very strong "visible hand" (government influence). Many industrial sectors in China are actually dominated by a few large SOEs and state-owned research institutes. That makes it possible for the Chinese government to mobilize various parties and resources. While in countries with less authoritarian regimes, the governments may face some difficulties in quickly enacting numerous policies and mobilizing social resources at their will (Luo et al., 2010). Second, the great advantages China possesses, such as its massive population, vast territory and rapid economic growth, make being acquired attractive and profitable to foreign companies who tend to enter the Chinese market, and this is consistent with the national economic interests of developed economy states. This is an opportunity that the Chinese government could make use of. However, only a few countries have similar preconditions, such as India, while many other developing countries may not have such preconditions in place.

Of course, it does not mean being entrepreneurial is an easy task for the Chinese government. It needs to stay alert to emerging opportunities, since even a little slack in this area would lead to negative outcomes in this more competitive world. As a strategic step, the government could proactively participate in outward technology exploration by supporting and financing "national champions" to go international. Our evidence shows that the current financing policy may distort capital allocation. For policy makers, it is both important and a necessity to support POEs' outbound M&As and offer financing convenience if financing impartiality cannot be achieved in the short term.

From a managerial standpoint, this thesis suggests that it is essential for CMNEs to detect powerful interest groups, their functions and interests, and promote a favourable environment through different strategic actions to obtain legitimacy for outbound M&As. Both SOEs and POEs need to take their salient stakeholders into account when predicting future investment value. SOEs should continue to maintain their good connections with the Chinese government in order to leverage the political resources that are available in their home country and they should be more prudent when competing with their global competitors because of the political assets they possess prior to internationalization. POEs need to strategically respond to the discriminatory capital allocation and try to affect policymaking in China.

Meanwhile, the findings on the Chinese CBMA integration process imply the importance of contact. Both Chinese acquirers and the acquired companies should not refuse, but should create opportunities to visit and meet with each other. Through Westerners' frequent visits to China and the Chinese being received regularly in DEs, the understanding of each other's culture may increase. CMNEs should appreciate the value-added role of the cultural and business development agencies. Both Chinese and

DE companies should attach importance to professional services for filling in the cultural gaps between both parties.

6.4 Implications for Future Research

This thesis is essentially an exploratory one, analysing an area which is newly emerging and generally understudied. Although the individual chapters have discussed the limitations, this section attempts to highlight some general constraints and provide overarching ideas.

First, this thesis focuses on the context of China, which may be different from other emerging economies in terms of the cultural, economic, institutional and political systems. This makes it difficult to generalize the findings. Therefore, further research is necessary to offer more comprehensive evidence and details in order to test the degree to which the findings can be generalized in other emerging economies.

Second, further research is needed on the interaction between governmental policies and firm strategies, both theoretically and empirically. Prior literature on international business and cross-border M&As has paid great attention to the CMNE–host country government interrelationship, yet there is a paucity of research on CMNE–home country government interfaces (Luo et al., 2010). This oversight may be partly due to the “legitimacy” assumption, which I mentioned in Chapter 4. However, outward M&As from emerging economies provide an excellent setting for studying this important issue. It is important to explore how CMNEs proactively influence governmental decision-making and shape or reshape the upcoming OFDI policies, advancing our understanding of the business–politics linkages in the international business and emerging economy literature.

Third, while the unit of analysis in this thesis mainly focuses on the corporate level, it is notable that the outcomes of Chinese outward M&As are highly dependent on the individual characteristics of both the upper and lower echelons in CMNEs and acquired companies. In addition, our respondents in the qualitative studies (Chapters 4 and 5) represent the upper echelons of either acquirers or acquired companies. Although they are the decision-makers in acquisitions and integrations, I believe that the employees in basic divisions are also very important. Future studies should seek to integrate more direct input from this part of the workforce.

Fourth, a considerable force that will determine the future of Chinese outward M&As, even more broadly, the future of China, is the young Chinese generation. With over 50 interviews, the respondents generally suggested the importance of the new Chinese generation, particularly those young workers and students who have years of experience in the West and have become acquainted with Western cultures, rules and ways of doing business. A large part of this population will flow back to China as returnees, and will assume leadership in the political, academic and business communities. This change is so fast, it is not usual, but an accelerated evolution. In relation to the development of the management approach in China, their values from the West may change the management approach. Importantly, each culture and institution has its particular strengths and weaknesses (Chen & Miller, 2010). Chinese returnees have backgrounds in both Western and Eastern cultures, and can make use of this advantage to utilize the thinking and essence of both cultures selectively in a manner that CMNEs and Chinese institutions can benefit from and thus avoid negative outcomes. Chen and Miller (2010) call it an “ambicultural” approach. Therefore, it is of great importance to identify the values of returnees in outward M&As and in which ways their thinking, knowledge and experience change the management and institutional paradigm in China.

Fifth, studies should be placed within an overall changing environment. Prior studies have shown that in the face of the global economy, the changing role of host countries towards multinational enterprises (MNEs) and the changing strategies of MNEs increase the power of subsidiary boards and the operating models in subsidiaries (Strikwerda, 2009). In the case of China, the question regarding how the changing global economy affects the use of open innovation to gain access to knowledge and the development of innovation ecologies needs to be explored.

Last but not least, given the short history of Chinese outward M&As, it is too early to reach concrete conclusions. Thus, more longitudinal studies will be valuable in the future.

6.5 Good Timing for Indigenous Research: From the Theory of Chinese M&As to a Chinese Theory of M&As

With an issue-driven inside-out approach, this thesis answered the call for contextualization research on outward Chinese M&As. To be specific, from the strategic entrepreneurship perspective, I re-conceptualized the entrepreneurial state in the context of China and the specific case of HSR technology innovation. In addition, from the stakeholder and institution-based views, I re-identified the relevant stakeholders and actions in the legitimization process of outward M&As. In addition, I modified the assumption related to the function of debt financing to fit the condition of China's case. Most interestingly, I introduced native constructs derived from Chinese ancient philosophy (Wu Wei, effortless, and reversion) to define the relevant concepts, ideas and behaviours of CMNEs, and brought in the Chinese Wu Wei perspective to conceptualize the post-acquisition integration process.

In so doing, the questions related to the starting point, the speed, approach and strategies of internationalization by CMNEs raised at the beginning of the thesis (Chapter 1) were partially answered. Instead of ensuring that everything (internal resources, strength and capabilities) is ready, outward technology exploration fits the "risk-taking", "opportunity-seeking", "resource management" and "strategic learning" features of an entrepreneurial Chinese state (Chapter 2). This to some extent explained the starting point and the rapid speed of Chinese outward M&As. Meanwhile, the investigation of financing distortion and the special treatment given to SOEs (Chapter 3) also benefitted the understanding of the starting point of SOEs and their incredibly bold behaviour of entering into DEs and other distant countries. The domestic legitimization process of Chinese outward M&As (Chapter 4) was paid attention to for the first time in this thesis, because I have opted for the issue-driven approach. Otherwise, this critical issue in China will be neglected if we completely adhere to the Western M&A literature-driven approach. Last but not least, the Chinese indigenous Wu Wei perspective (Chapter 5) challenges the "giving full effort" assumption of traditional post-acquisition integration in the Western literature.

Clearly, contextualization is distinct from indigenization. Contextualization does not necessarily involve a local perspective, while indigenous research studies a unique local phenomenon or a unique element of any local phenomenon from a local perspective to explore its local relevance, and if possible, its global relevance as well (Li, Leung, Chen, & Luo, 2012; Li, 2012). To open a path up from phenomenon to theory, it is necessary to explore local theories and constructs derived from local phenomena. Needless to say, indigenization is a higher level of contextualization research and needs a more sophisticated approach to achieve it. Indigenous Chinese management research is gaining momentum; some scholars have taken the initiative and put developing indigenous constructs and theories in their research agenda (Leung, 2012; Vinig & Bossink, 2015). I have briefly mentioned this aspect in Chapter 1.

It is worth noting that most research still applies Western theories and constructs to understand Chinese outward M&As, which follows a path from theory to phenomenon, as mentioned in Chapter 1. However, inspired by the momentum of indigenization, in this specific section, I would like to propose a research agenda on the indigenization of Chinese outward M&As to develop Chinese theories of outward M&As.

First, it is necessary to introduce native instead of translated constructs. I argue that even if the Western constructs make sense in understanding outward Chinese M&As, the use of translated Western constructs may miss some of the wonderful stories and nuances in outward Chinese M&As. Take the top management team, for example; the Western construct of management competence is used to represent the capacity of the top management team. It seems reasonable that the stronger the management competence, the more likely the managers are to assume a leadership role in the acquisition and the more likely the success of their acquisitions will be. When it comes to outward Chinese M&As, the management autonomy granted to acquired companies is seen as the result of weak management competence and a proper strategy due to the lack of Chinese management competence. However, Chinese management philosophy gives prominence to reflexivity, agility, inclusiveness and benevolence.

Some research has argued that these are typical Western concepts. Take “reflexivity”, for instance; it is a group level construct, defined as “the extent to which group members overtly reflect upon, and communicate about the group’s objectives, strategies (e.g., decision-making) and processes (e.g., communication), and adapt them to current or anticipated circumstances” (West, 2000, p. 296). While these studies highlight the role of reflexivity, their focus is exclusively on the organizational level. Importantly, the reflexive objective in Western reflexivity is organizational shortcomings, such as corporate governance (Barratt & Korac-Kakabadse, 2002) and output as effectiveness (Schmid, 2009). Obviously, such reflexivity reflects a Western business philosophy on task and economic performance. It is explicitly different from the Chinese style of reflexivity, which looks at the personal shortcomings of the leadership in order to avoid conflicts and maintain organizational harmony. This Chinese indigenous reflexivity is interpreted as an effective way of self-protection from the Chinese indigenous Taoism perspective (Xing & Sims, 2011). Therefore, if we adhere to the translated construct of management competence, despite being logical, behaviour is only seen as a behaviour and strategy and it would be difficult to penetrate the cultural roots of the behaviour.

Second, fresh perspectives should be put at the top of the research agenda. Dunning’s OLI framework incorporates a competitive advantage perspective. The Uppsala model takes a psychic distance perspective. When it comes to outward Chinese M&As, as I mentioned in Chapter 1, these perspectives are not completely applicable to Chinese outward M&As. Recently, some novel perspectives have been brought into play. For instance, an asymmetry-based view allows for a more forward-looking view in terms of the potential future advantage rather than the presently realized advantage, and argues that companies should build not on valuable resources or capabilities, but on asymmetries: inimitable differences between themselves and other firms that in their initial states could in no way be considered valuable (Madhok & Keyhani, 2012; Miller, 2003). In so doing, it explains how CMNEs cultivate the advantages through M&As in the long term. Another novel perspective is the learning and network perspective, based on which Mathews (2006) builds a linkage–leverage–learning (LLL) framework to explain that internationalization is accelerated through linkage with DE companies. In addition, it is necessary to understand Chinese outward M&As from a national geopolitical viewpoint. The surge of MNEs in the 20th century brought down national borders, making value creation directly from other countries possible. MNEs have expanded into risky and unfamiliar regions that encompassed not only tremendous political uncertainty, but also enormous potential, and in return, this accelerated the economic power of the country as a whole, as well as enhanced the invisible control of these invested regions. Sprout and Sprout (1968) introduced “transaction” into the geopolitical domain, which initially connected geopolitics with business and created the possibility of explaining one nation's geopolitics from a business perspective, and vice versa, by considering international trade, which to a large extent highlights a nation's power in the contemporary world and has begun to play a more vital and day-to-day role among countries. In this sense, the power of investment expansion, such as the capacity for foreign investment and MNEs, becomes a geopolitical power that cannot be ignored (As-Saber & Härtel, 2006). However, the term "geopolitics" is mentioned occasionally by economists and policy makers when discussing international business (As-saber, Liesch, & Dowling, 2000). When it comes to outbound M&As, "geopolitics" seems to have nothing to do with it. Nevertheless, does geopolitics play a role in outbound M&As? How does it affect the decision-making and -implementation of outbound M&As? In the future, these questions should be addressed.

To undertake indigenous research and build a Chinese theory of outward M&As, third and most importantly, the research mind-set requires a shift from Western to Chinese thinking. Essentially, the Western constructs, assumptions and perspectives signify a Western analytical way of thinking, which is either/or, efficiency-focused and task-oriented, while the local constructs and those fresh perspectives somehow entail a Chinese way of thinking captured by both/and, "go with the flow", people-oriented and social concerns (Chen, 2002). Instead of theorizing Chinese outward M&As from a polarized perspective, future research will benefit from inclusive perspectives oriented by a "both/and" mind-set.

In conclusion, it is the perfect time for indigenous outward M&A research. Over the past few years, a large body of literature on Chinese outward M&As either has adhered to, or modified the scope of mainstream theories. In any case, indigenous research will both broaden the understanding of, in particular, the nuances of outward Chinese M&As, and meet the need for the theoretical advancement of Chinese outward M&As.

Appendix

Table A.1 An overview of the post-acquisition integration approach framework

Integration approach	Preservation	Symbiosis	Absorption
Rationale	Protect competitive advantages of acquired companies	Explore and exploit each other's competitive advantages	Exploit specific ownership, localization and internalization advantages
Synergy potential	Low	Moderate to high	High
Task integration	Leave the operation of acquired companies intact	Strategically consolidate the core competencies of acquired companies into acquirers and leverage the interdependence	Fully assimilate and consolidate the operation of acquired companies into acquirers
Sociocultural integration	Rarely intervene, provide decision-making authority to acquired companies	Give acquired companies a high degree of autonomy, and consolidate its management into acquirers	Fully overturn the management team, offer none or very limited autonomy to acquired companies
Integration degree	Low	Significant	High

Table A.2 Information on the professionals (details)

ID	Position	Industry/Relevant experience	Time	Mode of contact
P1	Project Manager of CBMA Department & Chairman Assistant	Consultancy/Involved in three outbound acquisitions in DEs, in culture and entertainment, high-tech and automobile sector, respectively	2014	Face-to-face
P2	Founder	Consultancy/Consultant for Lenovo in the acquisition of IBM PC Division, Former law consultant of Microsoft	2014	Face-to-face
P3	Founder & CEO	Consultancy/Consultant for Chinese investments in Israel	2014	Face-to-face
P4	M&A Advisor	Consultancy/Involved in several Chinese CBMA deals	2014	Face-to-face
P5	Vice Manager	Consultancy/Involved in Sino-Europe M&A projects	2014	Face-to-face
P6	Chairman	Fund management/Involved in the acquisition of French Echosens SA by Inner Mongolia Furui Medical Science Co., Ltd. in 2011	2014	Face-to-face
P7	Vice Manager in Business Development	Fund management/Involved in the acquisition of Echosens SA by Furui	2014	Face-to-face
P8	Advisor	Investment bank/8 years' working in the investment bank in China	2014	Phone
P9	Lawyer	Law firm/Involved in Chinese CBMAs, in mining sector in particular	2014	Phone
P10	Employee in Strategy Department in HQ	Commercial bank	2014	QQ
P11	Employee in Credit Department in HQ	Policy bank	2013	QQ
P12	Deputy Director of Income Tax Division in State Administration of Taxation	Government agency in China/The main drafter of China's M&A legislation	2014	Internal seminar

ID	Position	Industry/Relevant experience	Time	Mode of contact
P13	US Branch Chairman of China M&A Association	Non-governmental organization/Involved in more than one hundred M&A deals, focusing on the strategic consultancy services for Chinese investors to acquire US companies; Founder, Chairman & CEO in an international consulting firm	2014	Internal seminar
P14	Secretary General of China M&A Association	Non-governmental organization/Worked in National Federation	2014	Face-to-face
P15	Vice Director of Research Department in Centre for China & Globalization	Non-governmental organization	2014	Face-to-face
P16	Chairman of Chamber of Commerce	Business association	2013	Emails
P17	Partner in transaction service	Consultancy/Involved in the acquisition of Draka by Xinmao	2013	Face-to-face
P18	Partner in Corporate Finance & M&As	Consultancy/Consultancy supervision of private equity firms in the sale of Inalfa Roof Systems Group to Beijing Hainachuan Automotive Parts Co., Ltd. (BHAP) in 2011; Worked as Head of Global M&As at KPMG Netherlands for 3 years; More than 15 years' relevant working experience	2014	Face-to-face
P19	Head of Benelux, & Managing Director	Consultancy/Involved in the acquisition of Inalfa by BHAP; Also involved in an uncompleted Sino-Netherlands acquisition; 19 years' experience in finance	2014	Face-to-face
P20	Associate Director	Consultancy	2013	Face-to-face
P21	Head of Energy Department	Consultancy/Involved in the acquisition of Steyr Motors GmbH by Phoenix Tree HSC Investment (Wuhan) Co., Ltd.	2013	Face-to-face
P22	Partner & Consulting Director	Consultancy/Partner for a few years in a consulting firm	2013	Face-to-face
P23	Manager in China Desk	Consultancy/Working in the company since 1999	2013	Face-to-face

Table A.2 (*Continued*)

ID	Position	Industry/Relevant experience	Time	Mode of contact
P24	Founder & Chairman	Consultancy/Worked as Director for Asia in Bird & Bird LLP, Andersen Legal and General Manager for Asia in De Brauw Blackstone Westbroek	2013	Face-to-face
P25	Director	Consultancy/Bridging the gap between Western and Chinese companies, serving as an intermediary and advisor to executive leaders on both sides	2014	Face-to-face
P26	Managing Partner	Consultancy/Involved in an acquisition by Ninigbo HuaXiang Group	2013	Emails
P27	CEO	Consultancy	2013	Emails
P28	Partner	Consultancy/13 years' working in M&As/private equity, specifically in CBMAs from Mainland China and Hong Kong into DEs	2013	Phone
P29	Partner in Beijing Office	Consultancy/Directly involved in the acquisition of Saab by Pang Da; Provide services mostly on cross-border activities, from advice to process or financing services	2012	Phone
P30	Lawyer & Partner	Law firm/Involved in 3 Sino-Netherlands M&A deals, in machinery, and the agriculture sector, respectively; Two years' working for the Beijing Office; 13 years' working in the company	2014	Phone
P31	Partner in Shanghai Office	Law firm/Legal advising on taxes for Chinese companies; Supervises 3–4 projects each year	2012	Phone
P32	Associate Director of Large Corporate & General M&A	Dutch commercial bank/Involved in COFCO Corporation-Nidera acquisition; Advisor to the selling party in the negotiation and involved in drafting of the transaction; 7 years' working in the bank	2014	Face-to-face
P33	Global Head of M&A Private Equity	Dutch commercial bank/Worked as Head of M&A Department	2014	Face-to-face
P34	Senior Manager	Chinese commercial bank subsidiary in the Netherlands/Joined the bank in January 2013; worked in M&A business division at two local banks	2013	Face-to-face
P35	Chairman	Business association/Involved in international trade, and relation building and cultural exchanges between cities or provinces between China and the Netherlands	2013	Face-to-face

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Summary

China is assuming an increasingly prominent position in the world economy as the investment begins to flow from China to the world. Compared to "the West goes to China", the (1) starting point, (2) internationalization paths and internationalization approach, and (3) strategic actions of "China goes to West" are quite distinct. First, neither China's legal nor financial system is as well developed as those in the developed economies (DEs), Chinese multinational enterprises (CMNEs) are usually less developed than developed economy multinational enterprises (DMNEs), particularly in terms of their soft strength. Second, CMNEs have witnessed a surprisingly rapid pace of internationalization as well as a deep interest in using outward M&As as a major approach to enter DEs in the early stages of their internationalization. Third, despite the boldness and aggressiveness of outward mergers and acquisitions (M&As), CMNEs have confused DMNEs because of their apparent effortlessness during post-acquisition integration. These distinct characteristics may challenge the conventional wisdom in the dominant mainstream theories of international business and multinational strategy.

With a growing recognition that outward investment research in the context of China may be either context-sensitive or context-specific, the collective set of papers in this thesis highlighted the unique value of deep contextualization research with the aim of mainstream theory revisions and modifications, and indigenous theory building.

Chapters 2 and 3 explored the role of the Chinese government in Chinese outward M&As. Chapter 2 discussed the role of the Chinese government in China's technology innovation process. The case study suggested that the government has led the transformation of China's high-speed rail (HSR) technology development. To be

specific, the government has assumed an entrepreneurial role and is alert to the opportunity to develop HSR technologies. Furthermore, the government has performed resource exploration and resource consolidation to exploit the opportunity. In addition, the successful opportunity exploitation over time is attributed to the government's strategic learning. In so doing, the technology innovation opportunity can be exploited appropriately and effectively. In short, Chapter 2 contributes to the literature by building a conceptual framework of the emerging economy "entrepreneurial state".

Chapter 3 examined whether the financing of Chinese outbound M&As is distorted between state-owned enterprises (SOEs) and privately owned enterprises (POEs). An empirical study using a dataset of 224 outbound M&A deals was conducted. The results showed that compared with POEs, SOEs enjoy a higher level of financing capacity in terms of debt and equity, although SOEs demonstrate a lower level of performance. This finding implied that financing distortions do exist in Chinese outbound M&As. Furthermore, the financing distortion leads to a "fictional" prosperity for SOEs, since state ownership compensates for the poor M&A performance of SOEs through positively moderating the effect of debt financing. Overall, Chapter 3 uncovered the heterogeneity of debt financing in Chinese outbound M&As. In the classical literature, debt financing operates as a device to discipline managers and is regarded as an important driver of investment efficiency. The analysis in this research subverted this theoretical prediction and denied the disciplining function of debt financing in China.

Chapters 4 and 5 aimed to explore the strategies of CMNEs in dealing with their outward M&A activities. Chapter 4 studied an overlooked phenomenon of the legitimization process of Chinese outbound M&As. Using multiple case studies, the study found that different from DEs where real stakeholders are predominant, in China, the institutional investors, the government and officials as stakeholder-watchers and stake-keepers are more salient in determining M&A legitimacy. Meanwhile, although the government plays multiple roles as stake-keeper, stake-watcher and as a real stakeholder simultaneously, the multiple roles need to be treated independently in the legitimization process of outbound M&As. CMNEs tend to adopt manipulation, negotiation and adaption towards real stakeholders, stake-watchers and stake-keepers, respectively.

Chapter 5 took a process-based perspective on the post-acquisition integration process of Chinese outward M&As in DEs. The study provided a counter-weight to the structure- and rationale-based integration models that dominate the M&A literature. First, the study has distinguished that objective stereotypes exist in Chinese-DE acquisitions, and the subjective perceptions of their relative status and vision between the Chinese and the acquired companies. It suggested that it is not these objective antecedents and significant disparities per se, but rather, the interpretations of these antecedents held by acquirers and acquired companies that play a significant role in the shaping of their managerial responses. Second, this study also identified the pros and cons of Chinese effortless integration and poses subsequent bottom-up reversion by acquired companies. Borrowing the native constructs of *Wu Wei* and *reversion* from Chinese Taoist philosophy, Chapter 5 conceptualizes a Wu Wei model of Chinese CBMA integration. The whole process obviously goes against the Western concept of planning, efficiency, task-focus and setting objectives or measuring “success”.

In summary, this thesis reflected the ambivalence of the government and Chinese companies in outward M&As. While the Chinese government shows a You Wei attitude towards outward M&As, You Wei acts on outward M&As in an ambivalent manner. On the one hand, the You Wei government positively facilitates outward technology exploration as an essential part of the technology development in China’s HSR industry; on the other hand, the You Wei government distorts the capital allocation for outward M&As between SOEs and POEs, and compensates for the loss by SOEs through low-cost debt financing. Similarly, Chinese companies behave ambivalently towards outward M&As. On the one hand, Chinese companies display a You Wei strategy, proactively coping with the various domestic stakeholders in the M&A legitimization process; on the other hand, they manifest a Wu Wei action, effortlessly dealing with post-acquisition integration in DEs. Overall, the thesis signifies the ambivalence of outward Chinese M&As, characterized by a “both/and” and interdependent opposites’ paradigm.

Inspired by the momentum of indigenization, this thesis proposed a research agenda on the indigenization of Chinese outward M&As to develop Chinese theories of outward M&As. To achieve indigenous research and build a Chinese theory of outward M&As, most importantly, the research mind-set requires a shift from Western to Chinese thinking. Instead of theorizing Chinese outward M&As from a Western perspective, the indigenous research entails a Chinese way of thinking captured by both/and, “go with the flow”, people-oriented and social concerns. Chinese management research in the future will benefit from Chinese perspectives.

Samenvatting

In toenemende mate neemt China een prominente positie in binnen de wereldeconomie, waarbij haar investeringen steeds beter hun weg vinden in de wereld. Chinese investeringen in het Westen vertonen behoorlijke verschillen met Westerse investeringen in China op het gebied van (1) uitgangspunten, (2) achterliggende motieven en benaderingen, en (3) strategische acties. Ten eerste, zowel het rechtssysteem als het financiële systeem is in China minder ontwikkeld dan in Westerse economieën. Daardoor zijn Chinese multinationals op die punten meestal minder ontwikkeld dan Westerse multinationals, met name op het gebied van *soft strengths*. Ten tweede, Chinese investeringen in het Westen worden gedaan in een hoog tempo waarbij Chinese multinationals vooral gebruik maken van fusies en overnames bij hun eerste stappen in buitenlandse investeringen. Ten derde, ondanks de dominante en agressieve kenmerken van fusies en overnames als investeringsvorm, zijn Westerse multinationals verrast door de gereserveerdheid binnen integratieprocessen na de overnames. Deze verschillende kenmerken trekken mogelijk de algemeen aangenomen theorieën van internationaal zakendoen en bijbehorende strategieën van multinationals in twijfel.

Steeds meer groeit het besef dat onderzoek naar buitenlandse investeringen inzake China zowel contextgevoelig als contextafhankelijk is. De artikelen die zijn gebruikt in dit onderzoek benadrukken het belang van contextafhankelijk onderzoek, met als doel om zowel huidige theorieën te herzien als binnenlandse theorieën te ontwikkelen.

In hoofdstuk 2 en 3 wordt de rol van de Chinese overheid in Chinese buitenlandse fusies en overnames beschreven. Hoofdstuk 2 behandelt de invloed van de Chinese overheid op innovatieprocessen in technologie. De casus leert ons dat de Chinese overheid leidend is geweest in de transformatie van China’s hogesnelheidslijn op het gebied van technologie. Bij deze technologische ontwikkeling was de Chinese overheid initiator en bepalend voor het benutten van mogelijkheden, zowel door het gebruik van huidige resources als het verkennen van nieuwe resources. Door de jaren heen is de Chinese overheid zo succesvol geweest in het benutten van verschillende resources door hun focus op het (leer)proces in strategische vraagstukken. Door deze focus op (leer)processen kunnen mogelijkheden in technologische innovatie op een juiste manier worden ontwikkeld. Samengevat, hoofdstuk 2 draagt bij aan de huidige literatuur doordat de ondernemende rol van de overheid van opkomende landen schematisch in kaart wordt gebracht.

Hoofdstuk 3 onderzoekt in hoeverre er ongelijkheid is tussen staatsbedrijven en private bedrijven als het gaat om de financiering van Chinese fusies en overnames in het buitenland. Om deze vraag te beantwoorden is empirisch onderzoek uitgevoerd waarbij gebruik is gemaakt van een dataset van 224 buitenlandse fusies en overnames. De resultaten tonen aan dat staatsbedrijven meer financiering krijgen terwijl zij minder presteren. Dit toont aan dat er ongelijkheid is in de financiering van Chinese fusies en overnames in het buitenland. Daarnaast leiden deze financieringen tot een onterecht rooskleurig beeld van de voorspoed van Chinese staatsbedrijven, omdat de staat door middel van deze financieringen de verliesgevende buitenlandse fusies en overnames compenseert. Samengevat toont hoofdstuk 3 de ongelijkheid aan tussen staatsbedrijven en private bedrijven op het gebied van buitenlandse overnames. In de algemeen geaccepteerde literatuur fungeert externe financiering als een middel om managers te controleren, en zorgt het aantrekken van externe financiering vaak voor efficiëntie in investeringsbeslissingen. Echter, het resultaat van dit onderzoek haalt deze theoretische aanname onderuit, en is in contrast met de controlerende functie van externe financiering.

Hoofdstuk 4 en 5 richten zich op de strategieën die Chinese multinationals gebruiken bij buitenlandse fusies en overnames. Hoofdstuk 4 onderzoekt het legitimeringsproces van Chinese fusies en overnames in het buitenland. Het legitimeringsproces is een vaak vergeten onderdeel in de literatuur. Met behulp van meerdere casussen wordt aangetoond dat, in tegenstelling tot Westerse economieën, waar direct belanghebbenden meer van belang zijn in het verkrijgen van legitimiteit, in China indirect belanghebbenden zoals institutionele beleggers en de overheid erg bepalend zijn voor de legitimering van fusies en overnames. Op deze manier speelt de Chinese overheid zowel een rol als direct belanghebbende (*real stakeholder*) en als indirect belanghebbende (*stake-watcher* en *stake-keeper*), terwijl in een correct legitimeringsproces van buitenlandse fusies en overnames deze rollen onafhankelijk van elkaar moeten zijn. Als gevolg hiervan neigen Chinese multinationals gebruik te maken van *adaption*, *negotiation* en *adaption* als strategie richting hun direct- en indirect belanghebbenden.

In hoofdstuk 5 wordt gebruikt gemaakt van een procesmatige benadering om het integratieproces van Chinese overnames in Westerse economieën te onderzoeken. Op die manier biedt dit onderzoek tegenwicht aan de integratiemodellen in de huidige literatuur die gedomineerd worden door een rationele en gestructureerde. Ten eerste analyseert dit onderzoek verschillende stereotyperingen die heersen binnen Chinees-Westerse fusies en overnames, en de subjectieve wederzijdse perceptie van status en visie tussen Chinese bedrijven en overgenomen bedrijven. De resultaten laten zien dat het niet zozeer gaat om de objectieve antecedenten en significante verschillen per se, maar meer om de interpretatie van deze antecedenten tussen de overnemende en overgenomen bedrijven. Daarbij hebben beide bedrijven een grote rol in het creëren van de juiste reacties en gedrag vanuit het management. Ten tweede beschrijft dit onderzoek de voor- en nadelen van de moeiteloze Chinese integratie waarbij wordt teruggevallen op een *bottom-up* benadering richting het overgenomen bedrijf. De concepten *Wu Wei* en *reversion* worden geleend uit de Chinese filosofie van het Taoïsme, welke vervolgens gebruikt worden om een Wu Wei model op te stellen van het integratieproces van Chinese bedrijven die fusies en overnames doen in het buitenland. Voor de hand liggend is dit integratieproces strijdig met Westerse concepten als planning, efficiëntie, taakgerichtheid, en het bepalen van duidelijke doelstellingen waarmee “succes” wordt gemeten.

Samenvattend, dit onderzoek toont de tegenstrijdigheid van de Chinese overheid en Chinese bedrijven betreffende buitenlandse fusies en overnames. De Chinese overheid benadert het Chinese beleid omtrent buitenlandse fusies en overnames volgens het *You Wei* principe, wat een tegenstrijdig effect heeft op buitenlandse fusies en overnames. Aan de ene kant is het You Wei beleid van de overheid een essentieel onderdeel in het benutten van nieuwe mogelijkheden op het gebied van technologie in de Chinese hogesnelheidslijn, waarbij de overheid het proces van technologische ontwikkeling faciliteert. Terwijl aan de andere kant, het You Wei beleid van de overheid zorgt voor ongelijkheid tussen staatsbedrijven en private bedrijven in de financiering van buitenlandse fusies en overnames. Daarnaast compenseert de overheid de verliezen van staatsbedrijven door middel van goedkope leningen. Op dezelfde manier vertonen Chinese bedrijven ook tegenstrijdig gedrag in hun beleid ten aanzien van buitenlandse investeringen. Aan de ene kant hanteren zij een You Wei strategie waarbij zij actief intensieve relaties onderhouden met verschillende binnenlandse belanghebbenden in de legitimering van de fusies en overnames, terwijl zij aan de andere kant een terughoudende *We Wei* benadering hanteren in het integratieproces met Westerse bedrijven. Alles samengenomen, beschrijft dit onderzoek de tegenstrijdigheden van Chinese fusies en overnames in het buitenland, wat gekarakteriseerd wordt door het “en/en” paradigma en het paradigma van onderling afhankelijke verschillen.

Geïnspireerd door de kracht van *indigenization*, probeert dit onderzoek de wetenschapsfocus te richten op de ontwikkeling van Chinese theorieën omtrent buitenlandse fusies en overnames. Om gedegen onderzoek uit te voeren naar inheemse gebruiken en voor de ontwikkeling van Chinese theorieën over buitenlandse fusies en overnames, is het nodig om te veranderen van een Westers perspectief naar een Chinees perspectief. In plaats van theorievorming vanuit Westers perspectief, hanteert inheems onderzoek een Chinese manier van denken die gekenmerkt wordt door “en/en”, “het komt zoals het komt”, een perspectief waarbij de mens en hun sociale aspecten centraal staan. De kijk op Chinese managementtheorieën zal worden verrijkt door onderzoek waarbij een Chinees perspectief wordt gehanteerd.

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About the Author

Zhe Sun was born on 24 March 1986 in Jilin, China. She studied at in the Economics School at Jilin University between 2005 and 2011. During her studies, she specialized in the field of entrepreneurship in China and assisted with academic research projects on high-tech entrepreneurship. She started her PhD at the University of Amsterdam Business School in the Netherlands in September 2011 under the financial support of the China Scholarship Council. In her research, she focuses on Chinese outbound mergers and acquisitions in developed economies, including the effects of the Chinese culture and institutional environment. Her work has been published in the journal *Technology Analysis and Strategic Management*.