Chinese acquisitions in the UK: A multiple case-study approach

Abstract

The last decade has seen an emergence of research on Chinese acquisitions in advanced economies. Our understanding of their acquisition behaviour has developed but there is a notable absence of evidence from the UK. Using a multiple case study approach this study examines acquisitions by Chinese multinational enterprises in the UK context. Focusing on the manufacturing, semiconductor and automotive industries it investigates the types of strategic assets sought by Chinese MNEs and their approach towards target firms. The findings suggest that i) strategic assets sought in Britain are similar to those sought in Europe. ii) they tend to prefer a light-touch acquisition approach but this is not true in all cases
INTRODUCTION

Since 2004 the value of foreign acquisitions by Chinese MNEs (multinational enterprises) has increased rapidly (Williamson, Raman, 2011) especially in advanced economies (Edamura et al. 2014). There is widespread consensus that many of these acquisitions are driven by access to strategic assets (Deng, 2007; Luo, Tung 2007; Wright et al. 2005) such as technology, brands and management expertise (Child, Rodrigues 2005; China Council for the Promotion of Trade, UNCTAD & Asia Pacific Foundation of Canada, 2011). Although there has been some research on types of assets in Europe (Schuller-Zhou et al. 2012; Knoerich, 2012), there is a notable lack of evidence from the UK. Therefore the first aim of this study is to determine the types of strategic assets Chinese MNEs are seeking when they acquire British companies.

When acquiring MNEs in developed countries Chinese MNEs have tended to take a light-touch approach (Kale et al. 2009; Kumar, 2009; Cogman, Tan 2010). This means that the acquired companies are left to operate with limited intervention from the acquiring company. They remain autonomous and independent in relation to their new owners. This was the most effective way of accessing strategic assets embedded in the acquired companies. Research shows that Chinese acquirers in Europe have taken this approach in the manufacturing industry (Zheng et al. 2016), but it is not known whether the same approach would apply to other industries. In addition we do not know whether Chinese acquirers would take a similar approach in the UK. Therefore the second aim of this study is determine the extent to which Chinese MNEs are deploying a light-touch approach when acquiring British companies in range of sectors.

To achieve the outlined aims the study uses evidence from the manufacturing, semiconductor and automotive industries in the UK.
LITERATURE REVIEW

Initially the widely accepted view in international business research was that companies internationalised in order to exploit ownership (Dunning, 2000) or firm-specific advantages (Rugman, 2008). These could be technology, brands, knowledge, managerial or marketing skills (Dunning, 1993; Rugman, 2007). This view was developed on the basis of evidence from MNEs that originated from developed economies. However, the emergence of MNEs from rapidly developing economies gave rise to a new theoretical perspective.

Scholars studying MNEs from emerging markets argued that these companies lack conventional competitive advantages and invest overseas in order to obtain them (Mathews, 2006; Luo, Tung 2007; Guillen, Garcia-Canal 2009). According to Mathews, firms internationalise in order to absorb new skills and knowledge from advanced multinationals. The main assumption of this perspective is that emerging market firms internationalise in order to compensate for their competitive disadvantages (Guillen, Garcia-Canal 2009; Luo, Tung 2007). In response to these developments Dunning acknowledged that internationalisation was not just about exploiting ownership specific assets. It was also about protecting or augmenting them (Dunning, 2000).

Internationalisation of Chinese MNEs – the pursuit of strategic assets

Numerous research findings emphasise access to strategic assets as a key motive for internationalisation of Chinese MNEs. Assets such as advanced technology and brands are used to enhance the competitive edge of Chinese investors (Child, Rodrigues 2005). Access to strategic assets is particularly relevant for companies investing in developed economies. Deng’s position is that Chinese investment in developed countries is driven by a need for strategic resources that are not readily available in China. Chinese MNEs require strategic assets to compete more effectively with mature MNEs (Deng, 2007). Some scholars believe
that Chinese firms invest abroad in order to access knowledge embedded within developed economies (Rugman, Li 2007).

The springboard perspective proposes that Chinese MNEs invest overseas to acquire strategic assets. They buy critical assets from established MNEs to counteract their competitive weaknesses and raise their competitiveness levels (Luo, Tung 2007). This view is further supported from a strategic perspective arguing that the central motivation for emerging market firms to enter developed economies is exploration rather than exploitation (Wright et al. 2005). Findings from Chinese MNEs and their innovation output shows that Chinese companies are investing in Europe in order to upgrade their technologies (Gugler, Vanioli 2015).

A report on internationalisation of Chinese MNEs shows that Chinese MNEs invest in Europe to acquire well-known brands (28%) and technologies/management expertise (21%) (China Council for the Promotion of Trade, UNCTAD & Asia Pacific Foundation of Canada, 2011). A later version of the same report shows that these reasons for investment were still important two years on. The methodology has since changed so a direct comparison is impossible but on a scale of 1 to 5 (least to most important) Chinese MNEs gave the following scores: upgrade brand in international market 3.85; acquire brand management experience 3.69; acquire R&D management experience 3.34; acquire overseas R&D team 3.20 (Asia Pacific Foundation of Canada, Jack Austin Centre for Asia Pacific Studies & China Council for the Promotion of International Trade, 2013).

Research findings from several case studies support this view. Early case study evidence from the Chinese white goods manufacturer Haier points to a lack of resources and technology. In this case the company overcame the challenge by internationalising – setting up research centres in developed countries to develop, acquire and transfer technology (Liu, Li 2002).
A more recent example is the case of Geely and its acquisition of Volvo. The use of the Volvo brand enabled Geely to strengthen its brand and improve its image in international markets. It also upgraded its technological base so that it could enter the lucrative Chinese luxury car market currently dominated by European MNEs such as BMW and Audi (Asia Pacific Foundation of Canada, Jack Austin Centre for Asia Pacific Studies & China Council for the Promotion of International Trade, 2013; Fetscherin, Beuttenmuller, 2012).

In Europe Chinese MNEs are interested in accessing advanced technology and established brand names (Schuller-Zhou et al. 2012). The investment location is chosen on the basis of host country strengths in a particular sector or activity. For instance Germany has a good reputation in machinery and equipment, while Sweden and Finland are well known for research and development (Knoerich, 2012). Evidence based on Chinese cross-border mergers and acquisitions suggests that Chinese MNEs seek the following strategic assets: established global brands, advanced technologies, technological and marketing capabilities, global networks of target firms and management expertise (Zheng et al. 2016).

Whilst there is some indication that Chinese MNEs are locating their investments in the UK to gain access to R&D capabilities (Liu, Tian 2008) as well as foreign technology and know-how (Cross, Voss 2007) there has not been a comprehensive study that examines the types of strategic assets these companies are interested in. Therefore the first aim of this study is find out what types of strategic assets Chinese MNEs are seeking when they acquire British companies.

**Chinese approach to acquisitions**

Over the last decade we have witnessed an increase in investment by Chinese MNEs in developed economies. Research suggests that the most common modes of investment are greenfield investments and acquisitions (Klossek, Linke & Nippa 2012; Hanemann, Rosen,
There has been a continued increase in the number of Chinese M&A in Europe, from 11 in 2006 to 61 in 2011 (Price Waterhouse Coopers, 2012). Chinese M&A activities have been encouraged by the relatively weak Euro and declining values of European firms. When it comes to investment modes in the UK, the few studies that have been conducted suggest that the dominant entry modes are greenfield investment and mergers and acquisitions (Burghart, Rossi 2009; Liu, Tian 2008).

MNEs from emerging markets seem to have a unique approach to acquiring firms in advanced economies. Companies from India, Brazil, Brazil and China have opted for a “light-handed M&A style” whereby the acquired company continues to operate independently as if there had been no change in ownership (Kale et al 2009). The relationship between the two entities is treated more like a strategic alliance. The senior executive team is the same and minimal changes are made to the acquired firm. Acquiring MNEs from emerging economies are cash rich and they buy Western companies to gain complementary competencies such as technology, brands, business models and innovation skills. They are focused on strategic goals taking a long-term view of their business and are therefore unlikely to rush into assimilation of the target company (Kumar, 2009).

Several explanations for this low intervention approach have been put forward. The first one suggests that Asian MNEs emphasise stability. They want to minimise short-term risk of failure and are often inexperienced acquirers. Compared to Western MNEs they are under less pressure to deliver short-term profits. Rapid assimilation of the acquired company may result in damage to strategic assets that inspired the acquisition in the first place (Cogman, Tan 2010). Under these circumstances the acquirers minimise integration and disruption to the target company leaving most of its operations and organisation intact.
The second explanation of the “light-touch integration” approach is based on evidence from Chinese acquisitions. It is influenced simultaneously by Chinese national culture and the acquiring company’s low level of absorptive capacity (Liu, Woywode 2013). The influence of Chinese culture can, for example, be seen in the way these companies take a long-term view of the acquisitions. Long-term orientation found in Asian culture thus influences the Chinese MNE’s attitude towards the acquisition. Low levels of absorptive capacity could be a contributing factor. The technology levels of Chinese MNEs may be significantly lower than those of the target company and therefore rapid integration would not be very effective.

The third explanation is that Chinese MNEs take a “partnering approach” towards acquisitions as this is the most effective way of accessing strategic assets (Zheng et al. 2016). It assumes a low level of integration between the Chinese MNE and the acquired company. The relationship is primarily collaborative whereby the two organisations remain separate and the acquired company has complete operational freedom. Since the aim of this type of acquisition is to access strategic assets such as technologies, brands, networks and management expertise then this approach seems to be a good fit because the assets are left intact. The Chinese MNE can then use the target company as a learning opportunity.

Based on the evidence so far it can be concluded that Chinese MNEs take a light-touch approach towards acquisitions in developed countries in pursuit of strategic assets. However the evidence is based on multiple case study data from the manufacturing sector in three different European countries (Zheng et al. 2016). It would be interesting to see whether Chinese MNEs have the same approach in sectors other than manufacturing and also in other countries. Therefore the second aim of this study is to determine the extent to which Chinese MNEs are deploying a light-touch approach when acquiring British companies in a range of sectors.
RESEARCH METHOD

An exploratory multiple case study approach is taken to investigate Chinese acquisitions in the UK. Since the presence of these companies is relatively recent and their numbers are low, it was most appropriate to study a small number of firms in detail. The case study method was a good fit because it enabled the investigation of a “contemporary phenomenon in-depth and within its real-world context” (Yin, 2014). It captured the “uniqueness” and “complexity” (Stake, 1995) of a small number of Chinese MNEs seeking strategic assets in the UK. The case study is exploratory because there is limited knowledge (Collis, Hussey 2003) of the behaviours of Chinese MNEs in the UK and the research is not hypothesis driven.

It was established that UK Trade and Investment does not have a database of Chinese MNEs in the UK so a database was compiled manually from the China-Britain Business Council magazine. The companies were categorised according to investment mode and a list of Chinese MNEs that had entered the UK via acquisitions was created. It was important to select companies from different sectors to avoid sector bias. The companies were contacted by telephone and email, three agreed to take part in the study from the manufacturing, semiconductor and automotive industries. It was a fortunate coincidence that they were all state-owned enterprises.

Insert table 1

This case study combines interview data with secondary data collected from publicly available sources. The interview was the primary data collection technique because it enables collection of rich and detailed data (Rubin, Rubin 2012), provides depth of meaning (Gillham, 2000) and has the added advantage of flexibility (Rubin, Rubin 2012). Respondents were selected from both acquiring and target companies based on their roles within the organisation. There was a mixture of senior executives and technical directors from Britain
and China to ensure that both perspectives were included. All the respondents had detailed understanding of the acquisition as they were closely involved in it. Individual interviews were conducted in English with nine respondents in total. Respondents whose first language was not English did not need translators because their language skills were proficient.

The interviews were semi-structured as a limited number of questions were prepared in advance. In addition allowances were made for follow-up questions during the interview so that interesting topics could be explored in more detail. Each interview lasted approximately one hour. Most of the interviews were recorded and then transcribed. Notes were taken during interviews where recording was not allowed. Once the interviews had been transcribed and the notes edited, they were sent back to the companies for verification and comments.

Once the secondary and primary data was collated, in-case analysis was conducted for each of the three companies. The data was coded according to key themes to build up a full picture of both the acquiring and the acquired companies. This was followed by cross-case analysis (Yin, 2009; Yin, 2014) whereby findings were synthesised across all of the studies. The strength of this analytical technique is that findings are likely to be more robust compared to those derived from a single case study.

The issue of generalisability of findings has been the most widely criticised aspect of the case study research method. However case studies were not designed with this purpose in mind. Instead they have an exemplary function (Thomas, 2011). Their purpose is one of particularisation rather than generalisation (Stake, 1995). For the purposes of this research the case study was used to verify whether previous findings apply to different sectors in the UK context. It was not to draw conclusions which can then be generalised to the entire population Chinese MNEs. The aim was gain insight into a specific, small group of companies in a particular context.
The issue of subjectivity of interviews (Gillham, 2000; Roulston, deMarrais & Lewis 2003) was minimised by including respondents from a range of executive and non-executive roles. They were chosen carefully so that some were employed directly by the Chinese MNE while others worked for the acquired UK company. Findings drawn from each of the case studies was also corroborated by findings across the others.

RESULTS AND DISCUSSION

Types of strategic assets

Broadly speaking the three Chinese MNEs examined were primarily interested in five types of strategic assets: technology, research and development (R&D), brand, business skills and local networks. The companies were not all interested in all types of strategic assets. Each company had its own combination.

For company A, the acquisition was driven by a need for more advanced technology. The target company was already technologically ahead of the Chinese MNE so the acquisition would enable it to internalise existing technology. But more importantly the strength of the target company was high end R&D and a strong innovation track record. It is viewed by the Chinese MNE as a “window” into the latest technological developments in the sector. (Interviewee A1). Thus it would enable the Chinese MNE to expand its innovative capacity.

Company A was also interested in tapping into the target company’s local networks with Universities such as Warwick, Manchester and Newcastle. Is it keen to work with UK universities and institutes as they can be valuable sources of technology and know-how.

For company B, the situation was similar. The acquisition was motivated by access to advanced technology. In this case it was more about gaining access to existing technologies and know-how embedded in the target company. Although the Chinese MNE has expressed
interest in developing new technologies with help from the target company, this has not happened yet and could be the next step.

Company B, much like company A, was interested in plugging into the target firm’s existing local networks consisting of external consultants and a range of universities such as Huddersfield, John Moores and Cranfield. Such local networks can be additional sources of technology which may help the company to advance its technology.

Company C was driven by access to a larger portfolio of strategic assets than companies A and B. Access to existing technology found in the target firm was only the starting point. Company C wanted to be able to develop its own products but it did not have the “technology or the skills” (Interviewee C7) to do this by itself. Therefore the fundamental role of the target company was to provide the engineering skill to “design and develop new products” for China and other international markets (Interviewee C5).

For this company access to a reputable and well established brand was also critical. Although it is very successful in China its brand was unknown in international markets and this had to change. Company C wanted to fast-track its brand development by acquiring a well-known brand which it would use to strengthen the image of its new line of products for the Chinese and international markets. The image conveyed by brand was one of “Britishness, quality, comfort and tradition” (Interviewee C7) rather than ‘made in China’.

The next strategic asset of interest for Company C was business skills. Since the company’s success was built on joint venture arrangements with international automotive companies in the home market, its experience of internationalisation had been limited until the acquisition. Their business and management expertise were well-suited to the Chinese market however they needed to learn about Western management practices and business skills which would
help them succeed outside China. For example they learned to build relationships with British suppliers with the guidance of the target company (Interviewee C4).

The final strategic asset for Company C was the target firm’s local and regional networks which are well are well developed and diverse. The UK’s strengths in automotive engineering are reflected in the wide network of universities, automotive consultancies, supporting industries and government agencies that the target firm has easy access to. It also has links to other European companies which is important because Europe is a major centre for automotive technology.

With regards to types of strategic assets sought by Chinese MNEs, the results of this study are in line with evidence from other developed economies. Chinese acquiring companies are interested in accessing similar types of strategic assets in the UK to those sought in the rest of Europe and other developed countries. In the UK strategic assets such as technology, R&D, brand, business skills and local networks were of primary importance. Chinese acquisitions in other advanced economies pursued a similar set of assets (Child, Rodrigues 2005; Gugler, Vanioli 2015; China Council for the Promotion of Trade, UNCTAD & Asia Pacific Foundation of Canada, 2011; Liu, Li 2002; Schuller-Zhou et al. 2012; Zheng et al. 2016; Liu, Tian 2008; Cross, Voss 2007).

**Approach to acquisitions**

The “partnering approach” (Zheng et al. 2016) to accessing strategic assets is found in two of the three Chinese MNEs examined. In both cases the acquiring companies displayed low levels of integration between the Chinese MNE and the target firm. The acquired British firms were given autonomy and independence to operate as they did before the acquisition. This “light-handed M&A style” (Kale et al. 2009) or “light-touch integration” (Liu, Woywode
2013) approach is commonly used by MNEs from emerging markets and data collected from Companies A and B suggests these MNEs from China were no exception.

After Company A’s acquisition of a British company few changes were made. Two senior managers from the parent company joined the senior management team of the acquired company, heads of R&D and Sales and Marketing. Most of the employees were local and only about 20% of were from the parent company. Continuity and stability of the management team was very important to the parent company. So the management team was largely British and the management style remained unchanged. The key aim for the acquisition was access to R&D capabilities and so other strategic decisions were taken to make this happen. In the words of the head of R&D “We want the technology to change, not anything else” (Interviewee A1).

Similarly, when company B acquired a British-based company it retained its independence from the parent company. The target company already had a good market image and a strong customer base and company B wanted this to remain the same. It continued to “operate in the same way it did prior to the takeover” (Interviewee B1). The management team was still British but the CEO reported to the China Head Office on strategic issues such as budgeting and acquisitions. Overall the acquired company based in Britain was given room to “pursue its own business activities with little interference” (Interviewee B1). The evidence from Companies A and B suggests that light-touch post-acquisition strategies are effective means of accessing knowledge-based strategic assets for Chinese MNEs in the UK.

The light touch approach taken by companies A and B is explained well by existing literature. The companies were not under pressure to deliver profits in the short term as they already had healthy profits as shown in Fig. 1. Stability of the acquired companies was very important and their approach was risk averse (Cogman, Tan 2010). The influence of Chinese culture is
reflected in the way that UK acquisitions are viewed as a long-term investment rather than a short-term transaction. The relatively low levels of absorptive capacity in the parent companies are reflected in that most of the high end R&D was concentrated in the UK-based companies (Liu, Woywode 2013). Moreover in both Companies A and B there was significant evidence of knowledge transfer from UK to Chinese staff which is taking place in both countries. This is likely to continue until technology levels between the acquired and the acquiring companies level out.

It was clear that Companies A and B wanted to preserve the strategic assets embedded in UK target firms. A “partnering approach” (Zheng et al. 2016) was the most effective way of accessing the assets as it enabled the acquired companies to operate without disruption. It was important that existing UK employees were retained as they were the main source of technology and know-how, key strategic assets sought after by the Chinese MNEs.

Interestingly, the post-acquisition behaviour of Company C differs from that of the previous two in that the degree of integration was higher. Most of the engineering staff was British and they reported to a UK business manager on a day to day basis (Interviewee C1). Out of a total of 300 employees in the UK, only 10 of them were from the parent company (Interviewee C1) which would initially suggest a high level of independence. However detailed interviews with employees from several engineering functions, IT, finance and quality show that the parent company exerted significant control over the acquired company.

All of the interviewees highlighted that the organisation had become more hierarchical and bureaucratic. The management style was more top-down than before and there was a tendency to micromanage. British and Chinese management styles seemed to co-exist and there was also noticeable government involvement. The UK team was part of a global engineering group so engineering tasks were often split between China and the UK. They tried “to operate
as a single team” (Interviewee C2). In this case the Chinese parent company seemed to have more involvement than in the previous two examples.

The behaviour displayed by Company C was different to the other two companies and cannot be explained by existing literature. In searching for explanations one factor of influence must first be excluded: ownership structure. Whilst private and state-owned Chinese enterprises might be expected to display different characteristics and behaviours, differences in ownership are not relevant in this case as all three companies examined were state-owned.

One possible explanation could be down to differences in strategic roles of the acquired companies. Namely the British companies acquired by Companies A and B were independent entities each having their own product development, production and customer base. In relation to the parent companies they were profit centres left to operate as they did before the acquisition. On the other hand, the company acquired by company C was a cost centre. It did not have its own customers and therefore did not generate any revenue. It was a product design and development centre for the Chinese parent company. It did not operate as stand-alone organisation and therefore required more control and integration with the Chinese MNE. So it was more appropriate that the Chinese MNE was more involved in operational and management aspects in order to maximise the strategic assets gained through the acquisition.

Perhaps the strategic role of the acquired company is another factor that influences whether Chinese MNEs take a more or less hand-on approach to acquisitions. The broader implication is that Chinese MNEs seem to have flexible approaches towards acquisitions in developed countries. This is very much aligned with the Chinese approach to management which is characterised by “responsiveness” and “flexibility” (Hout, Michael 2014). These
characteristics are being extended to their acquisition strategies which are adapted in a way that maximises use of the strategic assets that motivated the acquisition in the first place.

CONCLUSION

Existing research suggests that the investments of Chinese MNEs in developed countries are driven by access to strategic assets (Child, Rodrigues 2005; Deng, 2007; Rugman, Li 2007). Although there has been some research from Europe which identifies these assets (Schuller et al. 2012; Knoerich, 2012; Zheng et al. 2016), there is a lack of knowledge about the types of strategic assets that Chinese MNEs might be interested in the UK context. Therefore the first contribution of this study is that it identifies specific strategic assets of interest to Chinese MNEs when acquiring companies in the UK. The results highlight that the strategic assets sought by Chinese MNEs are: technology, research and development (R&D), brand, business skills and local networks. This is in line with research findings from Chinese MNEs in Europe and other developed economic regions.

Existing research on the acquisition approach taken by Chinese MNEs shows that these companies tend to take a hands off approach (Kale et al. 2009; Kumar, 2009). Although there has been some research in the European context (Zheng et al. 2016), there is an absence of comprehensive evidence from the UK. Therefore the second contribution of this study is that it determines the degree to which Chinese MNEs apply a light-touch approach towards acquisitions in the manufacturing, semiconductor and automotive sectors in Britain. The results highlight that Chinese MNEs in the UK may take a light-touch approach towards acquisitions but this is not always the way. In one of the cases a more interventionist approach was taken and this could be because the target company had a different strategic role. Based on this result it can be concluded that Chinese MNEs have a flexible approach towards
acquisitions in the UK and that the strategic role of the target company may influence the acquisition approach they take.
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Table 1. Case study profiles

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