

Erasmus University Rotterdam, the Netherlands
CSC PhD 2015 Project Description

School/Department:	Rotterdam School of Management Department of Strategic Management & Entrepreneurship Global Strategy section
Project Title:	Chinese outbound and inbound acquisitions: Post-deal integration, knowledge exchange, and strategic alternatives
Abstract:	<p>Research questions and background</p> <p>This PhD research proposal falls under the domain of Global Strategy. The term “global” emphasizes the domain’s interest in the study of cross-border business activities, while the term “strategy” alludes to organizations’ expansive worldviews, plans and decisions to consider foreign locations as potential financial, factor, and product markets, and as sources of knowledge, learning, and competitive advantage in their own right.</p> <p>Within the Global Strategy domain, this project revolves around cross-border acquisitions involving Chinese firms, either as acquirers or as targets. Both of these acquisition types (i.e., outbound and inbound Chinese acquisitions) have witnessed a spectacular rise over the previous 15 years. As a result, academic research on such acquisitions has proliferated. Yet this research has so far largely failed to address two important questions: (1) What determines the successful (or unsuccessful) integration of Chinese cross-border acquisitions and the resulting level of knowledge exchange between the acquirer and acquired firm?; and (2) Under what conditions are alternative expansion modes superior to Chinese cross-border acquisitions?</p> <p>A central theme in research on acquisitions is to understand what helps or hinders the integration of foreign acquired firms to effectively explore or exploit newly combined resources. Research indicates that capturing capabilities is a key acquisition motive for Chinese firms – inbound cross-border acquisitions often are a way to capture China-specific market capabilities, while outbound cross-border acquisitions may be a dominant way to capture managerial and R&D capabilities. Yet, integrating foreign units into larger multinational networks is extremely complex, and often unsuccessful. Initial research suggests that Chinese cross-border acquisitions may be quite unique in their formation and implementation. Yet, large scale research on Chinese cross-border acquisitions and their post-deal integration so far has been limited. As a result we lack an understanding about the key challenges and capabilities associated</p>

with implementing Chinese cross-border acquisitions. China's unique context as well as the great distance that many Chinese firms bridge through their cross-border acquisitions may expose them to widely diverse, and at times competing, regulatory and normative rules. Chinese cross-border acquisitions often involve extraordinary coordination and reconfiguration of resources in an internationally dispersed network, transferring knowledge and skills across units, and retaining key personnel. Considering the central learning motive that seems to drive many Chinese cross-border acquisitions, this prospective research will have valuable managerial implications in that it will assist executives in increasing the odds of success of Chinese cross-border acquisitions.

Although in some cases acquisitions are the optimal (i.e., profit-maximizing) way of expanding outside or into China, in other cases they are not, making it important to consider the main alternatives to them. Chinese firms, for instance, have been argued to have a relatively high propensity to make acquisitions, presumably due to their appetite for new strategic assets. This does not mean, however, that an acquisition is always the best expansion mode for a strategic asset-seeking Chinese firm, since new strategic assets can also be obtained through newly-established (i.e., greenfield) joint ventures. Yet there are hardly any international business studies of the choice between full acquisitions and the two other modes involving local firms (i.e., greenfield joint ventures and partial acquisitions). Only a few studies explored the determinants of the choice between cross-border acquisitions and international joint ventures, and each of these studies had a very narrow and non-Chinese focus. One study focused on the impact of national culture, whereas another focused on asset digestibility and a third one focused on board characteristics and managerial incentives. Moreover, none of these studies analyzed the performance consequences of the mode choices made. The same applies to the similarly small set of studies of the choice between full and partial acquisitions or, more generally, the exact ownership share taken in a foreign firm. Hence our knowledge of the choice between full acquisitions and several key alternatives is quite limited, both in general and in a Chinese context in particular. This is unfortunate because cross-border acquisitions are characterized by high failure rates, suggesting that managers often make acquisitions while they should have chosen a different option. It is therefore important to identify the factors determining managers' choices between full acquisitions and alternative expansion modes, such as equity joint ventures and partial acquisitions, and to explore whether

theoretically suboptimal choices result in a lower performance than theoretically optimal ones. If the latter is true, managers can be informed about the conditions under which their firm will likely be better off making a full acquisition abroad and when it will likely be better off making a partial acquisition or establishing a greenfield joint venture. This knowledge will be of great value to managers venturing out of or into China, given the high direct and opportunity costs that usually come with choosing the wrong expansion mode. It is particularly interesting to explore these issues in a Chinese context because of the unique nature of Chinese firms' capabilities and of China's formal and informal institutions. Precisely these factors (i.e., capabilities and institutions) are known to be key determinants of expansion mode choices.

Methodology

Almost all prior studies of Chinese outward and inward investments have relied exclusively on archival data, which may suffer from limitations such as reliability, incompleteness, and limited coverage of key decision-making factors. An important aspect of the data collection process is therefore to (i) obtain high-quality archival data on Chinese outward and inward investments (both from international and Chinese reporting bodies) and to (ii) complement these secondary data with primary data obtained from actual decision makers through surveys and interviews. A local Chinese scholar, Susan Zhu (朱虹) who received her PhD from Texas A&M University will be involved in the data collection process to maximize its effectiveness. The end result will be a unique and rich database of cross-border acquisitions (full and partial ones), greenfield joint ventures, and wholly-owned greenfields involving one or more Chinese firms.

Data on Chinese cross-border acquisitions and joint ventures and on the parent firms involved in these expansions can for instance be obtained from the *Zephyr* and *SDC Platinum* databases. Data on wholly-owned greenfields can be obtained from the *FDIMarkets* database of the Financial Times. Complementary firm-level data can be obtained from annual reports, databases like *Orbis* and *Compustat Global*, and self-administered questionnaires. The *ex post* performance of an expansion could be measured by the subsidiary's longevity or by managerial perceptions obtained through a questionnaire. To rule out industry effects, the sample of foreign

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	<p>investments could be limited to a single industry or a limited set of industries (e.g., manufacturing industries only). Country-level data on institutions can be obtained from such sources as the <i>World Development Indicators</i>, the <i>World Value Survey</i>, and the World Bank's <i>Governance Indicators</i>.</p>
Requirements of candidate:	<p>The ideal candidate for this project has the following traits. First, he/she has an MSc. or MPhil. degree in management, economics, political science, or sociology, obtained with outstanding grades. Second, the candidate has excellent statistical/econometric and analytical skills. Third, he/she should be highly motivated, diligent, persistent, a team player, and internationally oriented. Fourth, the candidate should be a talented prospective scholar with a keen interest in global strategy and international business in general and cross-border acquisitions in particular. Finally, he/she should have an IELTS grade of at least 7.0 (at least 6.0 per component) or a TOEFL score of at least 100 (at least 20 per component).</p>
Supervisor information:	<p>Promotor: Prof. dr. Taco Reus Professor of Global Strategy treus@rsm.nl www.rsm.nl/treus</p> <p>Co-promotor: Dr. Arjen Slangen Associate professor of International Business aslangen@rsm.nl www.rsm.nl/aslangen</p> <p>External collaborator: Dr. Susan Zhu Assistant Professor of Global Strategy HSBC Business School, Peking University</p> <p>Main publications of supervisory team:</p> <p>Baaij, M.G., & A.H.L. Slangen. 2013. The role of headquarters-subsidary geographic distance in strategic decisions by spatially disaggregated headquarters. <i>Journal of International Business Studies</i>, 44(9): 941-952. (ERIM P* publication)</p> <p>Beugelsdijk, S., J.-F. Hennart, A.H.L. Slangen, & R. Smeets. 2010.</p>

	<p>How and why FDI stocks are a biased measure of MNE affiliate activity. <i>Journal of International Business Studies</i>, 41(9): 1444-1459. (ERIM P* publication)</p> <p>Ellis, K.M., T.H. Reus, & B.T. Lamont. 2009. The effects of procedural and informational justice in the integration of related acquisitions. <i>Strategic Management Journal</i>, 30(2): 137-61. (ERIM P* publication)</p> <p>Ellis, K.M., T.H. Reus, B.T. Lamont, & A.L. Ranft. 2011. Transfer effects in large acquisitions: How size-specific experience matters. <i>Academy of Management Journal</i>, 54(6): 1261-76. (ERIM P* publication)</p> <p>Hennart, J.-F., & A.H.L. Slangen. 2014. Yes, we really do need more entry mode studies. <i>Journal of International Business Studies</i>, advance online publication July 31. doi: 10.1057/jibs.2014.39 (ERIM P* publication)</p> <p>Malhotra S., P. Zhu, T.H. Reus. 2014. Anchoring on the acquisition premium decisions of others. <i>Strategic Management Journal</i>, advance online publication September 4. doi: 10.1002/smj.2314. (ERIM P* publication)</p> <p>Reus, T.H., & B.T. Lamont 2009. The double-edged sword of cultural distance in international acquisitions. <i>Journal of International Business Studies</i>, 40(8), 1298-1316. (ERIM P* publication)</p> <p>Reus, T.H., A.L. Ranft, B.T. Lamont & G. Adams 2009. An interpretive systems view of knowledge investments. <i>Academy of Management Review</i>, 34(4), 382-400. (ERIM P* publication)</p> <p>Reus, T.H., & D. Rottig. 2009. Meta-analyses of international joint venture performance determinants: Evidence for theory, methodological artifacts and the unique context of China <i>Management International Review</i>, 49(5), 607-640. (ERIM S publication)</p> <p>Slangen, A.H.L. 2013. Greenfield or acquisition entry? The roles of policy uncertainty and MNE legitimacy in host countries. <i>Global Strategy Journal</i>, 3(3): 262-280. (ERIM P publication)</p> <p>Slangen, A.H.L. 2011. A communication-based theory of the choice</p>
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	<p>between greenfield and acquisition entry. <i>Journal of Management Studies</i>, 48(8): 1699-1726. (ERIM P* publication)</p> <p>Slangen, A.H.L. & S. Beugelsdijk. 2010. The impact of institutional hazards on foreign multinational activity: A contingency perspective. <i>Journal of International Business Studies</i>, 41(6): 980-995. (ERIM P* publication)</p> <p>Slangen, A.H.L. & J.-F. Hennart. 2008a. Do multinationals really prefer to enter culturally-distant countries through greenfields rather than through acquisitions? The role of parent experience and subsidiary autonomy. <i>Journal of International Business Studies</i>, 39(3): 472-490. (ERIM P* publication)</p> <p>Slangen, A.H.L. & J.-F. Hennart. 2008b. Do foreign greenfields outperform foreign acquisitions or vice versa? An institutional perspective. <i>Journal of Management Studies</i>, 45(7): 1301-1327. (ERIM P* publication)</p> <p>Slangen, A.H.L. & R.J.M. van Tulder. 2009. Cultural distance, political risk, or governance quality? Towards a more accurate conceptualization and measurement of external uncertainty in foreign entry mode research. <i>International Business Review</i>, 18(3): 276-291. (ERIM S publication)</p>
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