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Cross-border acquisitions in Chinese manufacturing industry

An institutional perspective

Master's thesis within Business Administration

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Abstract

Background

Cross-border acquisitions as effective strategic choices are used widely to enhance competitive advantages in Chinese enterprises in manufacturing industry. The decision making is influenced by certain institutions under the uniqueness of Chinese socialism system. This study investigates the influence of institutions towards the decision making of cross-border acquisitions.

Purpose

The study aims to build a conceptual model to identify the major regulative institutions and how they are influencing the decision making of cross-border acquisitions in Chinese manufacturing industry.

Method

The study conducts a case study on Lenovo and Geely based on secondary data to investigate the influence of regulative institutions on cross-border acquisitions.

Conclusion

The decision making of cross-border acquisitions in manufacturing enterprises is influenced by regulative institutions from international and national level which presented in three ways. First, the supportive regulation institutions create a favorable environment for cross-border acquisitions. Second, government promotes cross-border acquisitions by using policy as guidance. Third, the imperfect of the legal system impede the organizations progress.

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1 Introduction

The introduction is divided into four parts. First, the background of the current situation is presented. Second, the research problem is addressed with the identification of theoretical gap. Third, the purpose is stated. Last, the research questions are introduced in order to address the purpose.

1.1 Background

1.1.1 Cross-border acquisitions

Cross-border acquisitions have been widely utilized by enterprises who desire to achieve some specific objectives in the world with globalization process. It has been developed at a rapid pace during the last decades as a major strategic tool for growth of a multinational corporation (Cartwright & Cooper, 1993). Throughout the 1980s, the number of cross-border acquisitions activities conducted by Japanese and European companies increased triple times till the early 1990s (Morosini, Shane, & Singh, 1998).

There are different motivations that are driving the phenomenon of this activity. Among those varieties of motivations, the companies have focused on the strategic aspects in order to get more competitive advantages. Deng (2009) proposed that strategic-assets-seeking which means to look for every useful recourse and capability through cross-border acquisitions as a kind of common approaches to enhance the competency in industry. During the 1990s, the cross-border acquisitions have been executed frequently in China and the world increasingly. The international announced mergers and acquisitions (M&A) transactions in the whole world increased dramatically from 255 billion dollars in 1993 to 797 billion dollars in 1998, and there has also been a significant growth in Asia (Brown M. , 1999).

1.1.2 The current situation of the Chinese manufacturing industry

With the increasing development of the economic globalization, China has already become the biggest “factory” in the world. In the past decades, the manufacturing industry has increased 182.9 times and has contributed to Chinese economic development as a top driving force (Hitomi, 2003). Nearly every product is marked with “Made in China”, which has already become a common phenomenon. Since China became a member of WTO in 2001, there have been an increasing number of imports and exports trades. This trend has a positive influence to the firm performance (Nitin Pangarkar, 2011). However, China is now experiencing a transition period from planned economy to market economy. Therefore the traditional management mode as well as the organizational value in Chinese companies cannot satisfy the challenge in globalization. Besides, there is a conflict between the different degree of globalization and the local institutions, thus most multinational enterprises are trying their best to adopt this big change (Buckley P. J., 2007). All in all, Chinese manufacture industry is developing at a rapid pace and influencing the world economy dramatically, yet the process has not been mature completely.

1.1.3 The “biggest factory” in the world

Cost saving is always considered as an important agenda by foreign companies. They decided to move their “big factories” to China, who owns the cheap workforces and materials.

However, Professor Zhang proposed that the most significant problem in Chinese manufacturing industry is the lack of core values and own brand (Zhang S. , 2011). To attract customers, it is imperative to create unique products and services competing with other firms in the same industry.

1.1.4 Cross-border acquisitions in the Chinese context

Cross-border acquisitions have made a huge contribution to the rapid growth and economic transition in China, making it the leader of the developing countries in attracting foreign direct investment (Wei, 2012). Rui and Yip pointed (2008) out that “They have various strategic purposes, to seek various strategic assets, to gain sustainable competitive advantages by transforming themselves from a previously domestic market player to a global player, or from an outdated portfolio to an updated one” (p224). Different companies have their own traits and development direction, and executives should consider the specific situation of their companies to choose appropriate strategies.

China has already become the fastest developed economic entity in the world. On one hand, a large number of foreign firms prefer to invest in Chinese market for searching the demand for cheapest resources, access to the potential Chinese market, and increase in profits (Zhang, 2001). Thus, China has been the second largest recipient of inward foreign direct investment since 1992 and the third largest trading nation in the world since 2004 with the trade surplus hit \$102 billion in 2005 (Deng, 2007). On the other hand, the Chinese outward investment is dramatically increasing. Cross-border M&As by Chinese firms totaled US\$ 8.139 billion in the period of 1988 to 2003, most of which occurred after 1997; it even reached the level of \$1.647 billion in 2003 (Wu & Xie, 2010). Cross-border acquisitions are becoming a crucial issue and increasing number of Chinese companies have managed to complete the acquisitions process towards those world-famous enterprises, which aroused the interest of research on acquisitions.

According to statistics from China's Ministry of Commerce in 2011, the amount of acquisitions of Chinese manufacture industry occupies over 10% in all industries (Fu, 2011). There are some existing cases: Lenovo purchased PC business of IBM in 2004; Geely automotive purchased Volvo in 2010; TCL purchased two French businesses, Thomson in 2003, Alcatel in 2004 and one German business, Schneider in 2009.

1.2 Research problem

Previous literature (Wu & Xie, 2010; Zhang, Zhou, & Ebberts, 2011; Budckley, Clegg, Criss, Voss, & Zheng, 2007) proposed the determinants of the cross-border acquisitions performance but few of them analyzed the factors influencing the choice of acquisitions as a strategic approach, especially in Chinese context.

The definition of “institutional isomorphism” (Dimaggio & Powell, 1983) has been embedded into the institutional theory, which means organizations compete each other not

just for interests, market and resources, but also for political power, institutional legitimacy and economic fitness. An organization who wants to survive by legitimacy has to follow some certain practices and institutions.

China has unique institutions in political and economy forms, which refers to socialism and socialistic marketing economic system. Also, the government is one of the biggest shareholders in some Chinese enterprises. This implies that commercials have high sensitivity to the institution and the government is playing an important role in economic conformity. China is standing out from the world because of its uniqueness of the society attribution and the Socialism. Since 1978, the economic transition has been conducted dramatically in China. Peng (2000) proposed that there are two main features of the state socialist system. First, government prefers to use macro-control to avoid crises of overproduction, recession, and unemployment. Second, the macro-control is prepared by the most powerful bureaucratic agency, the national planning office. Under this background, cross-border acquisitions in Chinese companies also have their own features. Rui and Yip (2008) proposed that the transaction frequency and quantity of acquisitions are growing rapidly. The state-owned companies have higher abilities in conducting cross-border acquisitions. Moreover, their deals mainly focused on areas where competitions between local and international companies are intensive. Thus, the investigation of the influential factors in the decision making of acquisitions will be discussed from an institutional perspective. It is necessary to study in theory based on the unique Chinese traditions and realities (Li & Peng, 2008).

Previous researches concluded that the Chinese cross-border acquisitions decisions are affected by the home country institutional environment as mentioned above. However, there are few researches on the influence of institutions conducted in a specific industry. Deng (2009) suggested that the further research could focus on the institutions in some specific industries, which could verify the previous theories. To fill this gap, we will investigate the institutional issues as driving factors that are affecting companies to choose cross-border acquisitions in the manufacturing industry.

1.3 Research purpose

The thesis aims to build a conceptual framework for identifying the major regulative institutions that are influencing the decision making of cross-border acquisitions in Chinese manufacturing industry. By identifying the institutions, a deeper analysis will be performed to investigate how institutions influence on the decision making of cross-border acquisitions.

1.4 Research questions

The following questions are addressed in order to fulfill the purpose of this thesis:

- What kinds of regulative institutions influence the decision making of cross-border acquisitions?

- How can these regulative institutions influence the decision making of cross-border acquisitions?

1.5 Delimitations

The research is limited to the cross-border acquisitions adopted by Chinese multinational enterprises in manufacturing industry. The institutions involve is in the view of home country while the host country institutions will not be discussed. This research relies on case study of two cross-borders acquisitions: the acquisition of IBM by Lenovo and the acquisition of Volvo conducted by Geely. The case study is conducted with secondary sources.

2 Research Methodology

This section will present the methodology that using in the master thesis. The research relies on the secondary data in documentation evidence, using the case study as the research method.

2.1 Case study

Case study approach is used as a qualitative research to examine the empirical data and realities according to the theoretical logical order. Schramm (1971, cited in Yin, 2003) defined case study as “it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented and with what result (P 12). Yin (2003) also proposed that case study was an empirical inquiry to investigate the contemporary phenomenon within its real-life context, and to study the boundaries between the phenomenon and context. In another word, to prove the phenomenon that you are interested in has highly pertinent to the current contextual conditions.

Stake (1995, cited in Bryman, 2008) observed that case study research was considered with the “complexity and particular nature of the case in question” (P52). The case study strategy was suitable to solve the “how” and “why” questions (Yin, 2003). During the designing process of case study, the analysis of case aims to reflect the research questions as mentioned previously.

The unit of analysis refers to the component of case study objectives, which shows what the “case” is. Of course the “case” cannot only be the individual, but also the event and entity as well (Yin, 2003). Yin (2003) also divided the case study into two basic forms: single- and multiple- case studies. “The evidence from the multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust” (Herriott & Firestone, 1983 as cited in Yin, 2003, P. 46). In this master thesis we would like to choose two of the most famous successful cross-border acquisitions issues of Chinese companies as our research objectives.

2.2 Deductive approach

The deductive theory is defined as “the theory represents the commonest view of the nature of the relationship between theory and social research” (Bryman, 2008, p. 9). In the deductive approach, a hypothesis is deduced based on the theory, and the researchers confirm or reject the hypothesis by analyzing the empirical findings through data collection. The last step in deductive approach is to review back to the theory (Bryman & Bell, 2007).

Our research will follow the deductive approach. The first step is the revision of previous literatures which provide inspirations and theoretical foundation. Based on the knowledge we gain from previous literature, a theoretical framework will be formed as a hypothesis. The framework will then be tested through the analysis of empirical findings and concluded by whether it is confirmed or rejected.

2.3 Data collection

In our master thesis, the secondary data will be adopted as our main data collection approach. According to Yin (2003), six types of sources were frequently used in the case study research: documentation, archival records, interviews, direct observations, participant-observation and physical artifacts. Our data will be collected mostly from documentation evidence. The reason why we were not able to conduct direct interviews with the companies is due to the geographic constraints of Sweden and China as well as the Chinese business environment, where the top levels of organizations are difficult to reach. We will collect the information from interviews conducted by the mass media instead. Among the documentation evidence, there are several sources of evidence (Yin, 2003), which are formal studies done by other scholars; organizational documents available on the internet; public documents about the printed laws, regulations and policies; newspaper and internet resources.

Yin (2003) indicated that there are three advantages by using the documentation: First, the stability of documentations allows the researchers to review the documents repeatedly. Second, documentations provided the “exact terms” for the names, references and certain details as they were read in the documents. Third, the information contained in the documentations covered a large scale of events, research and long period of time.

In the following table 2-1, the data sources are presented. The sources of evidence are including six parts: Academic papers, organizational documents, public documents, newspapers and internet resources. We collect the information from these sources for the targets of Lenovo, Geely, national laws and regulations, national policies and international policies.

Table 2-1. Data Sources

Sources of Evidence	Targets	Sources from
Academic Papers	Lenovo	<ul style="list-style-type: none"> - Deng, P. (2009). Why do Chinese firms tend to acquire strategic assets in international expansion? <i>Journal of World Business</i> , pp. 74-84. - Zhou, S. (2009). Chinese foreign direct investment:current situation, trend and policy. <i>EAI Working Paper</i> , 75. - Biediger, J., DeCicco, T., Green, T., Hoffman, G., Lei, D., Mahadevan, K., et al. (2004). Strategic action at Lenovo. <i>21st Pan-Pacific Conference</i>. Anchorage, Alaska.
	National Policies	<ul style="list-style-type: none"> - Gonzalez-Vicente, R. (2011). The internationalization of the Chinese state. <i>Political Geography</i> , pp. 402-411.
	International Policy	<ul style="list-style-type: none"> - Chow, G. C. (2001). The impact of joining WTO on China's economic, legal and polical institutions. <i>Journal of Economic Literature</i> , 1-14.

Organizational Documents	Lenovo	- Annual Report 2004-2005
Public Documents	National Laws & Regulations	- Intellectual property protection law
	National Policy	<ul style="list-style-type: none"> - “Opening up” Strategy - “Going out” Strategy - “The implementation measures of Pilot enterprise groups in the state plan” promulgated in 1991 - Chinese tenth five-plan - Chinese twelfth five-plan - “The Measures for Overseas Investment Management” - National automotive industry Eleventh Five-Year Development Plan - Notice of the National Development and Reform Commission, the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State
Newspaper	Geely	<ul style="list-style-type: none"> - Shaohua, Z., & Tong, Y. (2005, September 30). Geely attended the Frankfurt International Moto Show. <i>Newspaper</i>. Zhejiang Daily. - Xu, Y. (2010, March 29). Geely successfully acquire Volvo. Zhejiang Daily. Zhejiang Daily.
Internet Resources	Lenovo	<ul style="list-style-type: none"> - Official Website: http://www.lenovo.com.cn/ - Xiao, L. (2006, May 26). <i>Lenovo globalization path and intellectual property strategies</i>. Retrieved May 11, 2012, from Faren Magazine: http://www.legaldaily.com.cn/zbk/2008-08/18/content_926476.htm - Topics in Focus. (2005, June 8). <i>Topics in Focus:Brand.China</i>. Retrieved May 12, 2012, from Lenovo: http://appserver.lenovo.com.cn/About/DetailPage.aspx?news_id=2972
	Geely	<ul style="list-style-type: none"> - Official Website: www.geely.com - Phoenix TV. (2010, March 29). <i>Ministry of Commerce showed the support for cross-border acquisitions of Geely</i>. Retrieved May 10, 2012, from ifeng.com: http://auto.ifeng.com/news/special/shougou/20100329/249872.shtml - Jin, D. (2006, November 10). <i>Adopt various measures to support Geely</i>. Retrieved May 11, 2012, from Sohu Car: http://auto.sohu.com/20061110/n246313546.shtml - Jiang, M., & Gao, L. (2011, September 7). <i>EU approved the</i>

		<p><i>acquisitions of Geely towards Volvo</i>. Retrieved May 12, 2011, from 163.com: http://auto.163.com/11/0907/08/7DB9BL6V00084TV0.html</p> <ul style="list-style-type: none"> - Huang, S., & Liang, Z. (2011, November 10). <i>Geely benefit from WTO for the expansion of international market</i>. Retrieved May 12, 2012, from Tencent.com: http://auto.qq.com/a/20111113/000058.htm - Wen, J. (2009, December 16). Ministry of Commerce support the acquisitions of Geely. Retrieved May 10, 2012, from Auto.sina.com: http://auto.sina.com.cn/news/2009-12-16/1341550245.shtml - Auto.ifeng. (2010, March 30). Press Conference: Geely's acquisition of Volvo. Retrieved May 10, 2012, from Auto.ifeng.com: http://auto.ifeng.com/news/special/shougou/20100330/251415.shtml - ICEO. (2012, April 11). Shufu Li: Private-owned enterprises need liberalization. Retrieved May 12, 2012, from ICEO.com: http://www.iceo.com.cn/renwu/46/2012/0411/245913.shtml
Secondary Interviews	Lenovo	- Interview of CEO Mr. Yuanqing Yang by Jun Lu in December 2004
	Geely	<ul style="list-style-type: none"> - Interview of Ms. Houyuan Xin, the head of Overseas Investment Research Center in International Trade and Economic Cooperation Research Institute conducted by Phoenix TV in March 2010 - Interview of Mr. Donghui Li, the vice-president of Geely during 2012 Chinese Automotive Forum

2.4 Data analysis

According to Bryman (2008), secondary analysis offered numerous benefits to students as it provided high-quality data, opportunities for further analysis and cross-culture analysis and wider obligations of the social researchers. We would like to use the secondary analysis, from which the data were analyzed by researchers who probably hadn't been involved in the collection of those data (Bryman, 2008).

In the analysis of the empirical findings, the technical call "Cross-case synthesis" developed by Yin (2003) will be used. This technique was designed specifically for multiple case studies. Using cross-case approach, which is easier to analyze the cases, we will choose more robust findings (Yin, 2003). After reviewing all the source of evidence, the data will be integrated and organized into different categories. The categories are defined based on the theoretical framework. An empirical finding table will be generated for each case to present the summary of data in different categories. The analysis and comparison of both the case will be formed depend on different categories. The analysis will follow the logical structure

of the theoretical framework in order to test the validity of the framework and answer the research questions.

3 Frame of reference

A literature review will be conducted in cross-border acquisitions and institutions to present a theoretical background for the research problem.

3.1 Definition of acquisition

Acquisition is frequently used as the external growth strategy of a firm. It is defined as “The purchase of an asset such as a plant, a division, or even an entire company (Sherman, 2010, p3).” The buyer in the acquisition process is called “acquirer” and the one being acquired is called “target” (Barringer & Ireland, 2010). Most of the literatures consider mergers and acquisitions as a whole strategy; however there is a difference between them. Merger refers to “companies combine their assets in order to create a new company” while in acquisitions, “one firm takes control of the majority of the capital of another company and integrates the acquired company” (Barmeyer & Mayrhofer, 2008, p3). The major point in distinguishing merger and acquisition is that in acquisition, the acquirer is in charge of the target; and in mergers, both companies have rights to control over the new organization (Epstein, 2005).

3.2 Motivation of acquisitions

The main motivation for firms to adopt acquisitions is to increase the competitive advantages by overcoming their weakness and leveraging their advantages (Rui & Yip, 2008). In strategic perspective, after reviewing the literatures, the major motivations are summarized into five categories that although literature does not distinguish between national and cross-border acquisitions, it serves as a point of departure.

3.2.1 Synergy effect

The synergy effect is considered as the main motivations for acquisitions as it is mentioned most frequently in the related articles. Porter (1985, as cited in Rachel, Shlomo, & David, 2010) described it as a primary reason for acquisitions. When combining the values of different businesses through acquisitions, the synergy effects will be made. In the literature of DePamphilis (2010), he divided synergy into two parts: Operating synergy and financial synergy. The operating efficiency can be improved through either the two factors of operating synergy which are economic of scale and scope by reducing the average overhead or cost per unit of the production (Boeh & Beamish, 2006) because the production volume can be fast and easily increased by acquisition (Frankel, 2005), acquiring the skills and gain customers through enlarging the production lines. The strategy of acquisitions generates an impact on the cost of capital of the acquiring firm of the newly formed firm. The cost of capital will be reduced for the merged firms by combining two firms.

3.2.2 Diversification in new market and new product

Acquisitions are commonly used to penetrate into a new geographic market (Hui & Qi, 2010). The advantages of adapting this strategy are cost & risk saving (Sherman, 2010) and allow the firms to penetrate the market in a faster speed (Frankel, 2005). Besides, acquisitions give firms the rights to develop the product owned by the target company (Sherman, 2010). By acquiring firms beyond the current primary product lines of a company, it turns

to a result that “firms can shift from their core product lines or markets into product lines or markets that have higher growth prospects (DePamphilis, 2010, p. 8).”

3.2.3 Resources

Acquisitions are also a fast and inexpensive way to obtain different kinds of resources. The resources are include: human resources, staff familiar with the local market during the acquisition of new market (Frankel, 2005); intangible assets such as patent and copy right (Sherman, 2010) as well as knowledge and technology (Hui & Qi, 2010).

3.2.4 Market power

Depamphilis (2010) also pointed out that acquisitions can be a strategy to gain the market power for the firms by increasing the market share and get the monopoly power to set the price above the competitive level. The market power can be strengthened in a way that the number of competitors declined through acquisition (Sherman, 2010). It also helps the firms to obtain the brand equity and loyalty customers of the acquired target (Frankel, 2005).

3.2.5 Strategic Realignment

Mergers and acquisitions is a way that company use for the strategic realignment to rapidly adjust to changes in the external environment by acquiring capabilities (DePamphilis, 2010). The change of regulatory environment and technological innovation are mainly considered by the author as these are the major forces in creating the new opportunities or threaten the primary line of business and obsolete the out-dated regulations and technologies.

3.3 Motivations for Cross-border acquisitions

The reasons behind the cross-border acquisitions are diversify their products and markets. The cross-border acquisitions are specifically driven by the globalization (Wu & Xie, 2010). The acquisitions after late 1990s were more “international in scope and involving companies from more than one country (Öberg & Holtström, 2006, p. 1267)”. Together with globalization, there are certain changes of technology, political and regulation. Cross-border acquisitions are a fast way for firms to acquire the new technology in order to cope with the rapid technological growth. In terms of the political and regulation change, more and more countries are now open up for the foreign investment and establish policies that benefit for the acquisitions (Wu & Xie, 2010). Besides, the cross-border acquisitions allow firms to exploit complementarities between the specific capabilities of the local firms’ country and the “intangible technological advantages” of the acquiring firms (Nocke & Yeaple, 2007). As Anand and Delios (2002, as cited in Nocke & Yeaple, 2007) pointed out that there are difficulties for some capabilities such as marketing, distribution, and institutional competency to mobile across countries. Firms adapt the strategies of acquisitions to combine the advantages of different resources. For instance, firms acquire other company

for the reason of the resources such as raw materials and technologies (Zhang, Zhou, & Ebbbers, 2011).

3.4 Motivations for Cross-border acquisitions of Chinese enterprises

Among the general motivations, the major motivations especially for Chinese cross-border acquisition can be summarized into seeking strategic assets and diversification (Hui & Qi, 2010). The strategic assets mean both tangible and intangible resources and capabilities that will increase the competitive advantage of the firms (Deng, 2009). As a new comer into the international market, this strategy provides an efficient way to gain the resources and capabilities which increase the competitive advantages of the firms. The efficiency is also reflecting in the perspective of creating the brand awareness and expansion into international market. The motivations are specifically affected by the institutional constraints. As the organization is deeply embedded in the institutional environment, their business practices are often not established to reflect or response to rules and beliefs directly in larger context (Meyer & Rowan, 1977). Therefore, the institution influences the decision making for acquisition action to one company definitely, because organization must conform to its motherland institutional environment in order to seek legitimacy (Oliver., 1997). Chinese special institution factors such as host country's institutional quality, institutional restrictions in the specific target industry, and institutional constraints on target or acquiring firms and the power from government (Deng, 2009) become the factors in decision-making acquisition (Zhang, Zhou, & Ebbbers, 2011).

3.5 An institutional perspective to the influential factors for cross-border acquisitions

The definition of institution given by North (1990) described it as “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction (p3)”. Scott (1995, cited in Yiu & Makino, 2002) proposed three pillars of institutional environment, which are regulative, normative and cognitive. Regulative institution refers to the laws and rules existing to restrict the human behavior for the purpose of social stability. Normative institution means the cultures, values and norms form the whole society. Cognitive institution refers to established cognitive structures in society, such as the shared heritage and belief inside organization.

In 1971, Davis and North developed the institutional framework which explained the role of institution towards individuals and organizations that is “the set of fundamental political, social, and legal ground rules that establishes the basis for production, exchange, and distribution” (p6). There are two types of institutional constraints: formal and informal. The formal constraints including the rules in both political and economic aspect such as political rules, judicial decisions, and economic contracts (Peng, 2000); while informal constraints refers to the social norms, codes of conduct (North, 1990).

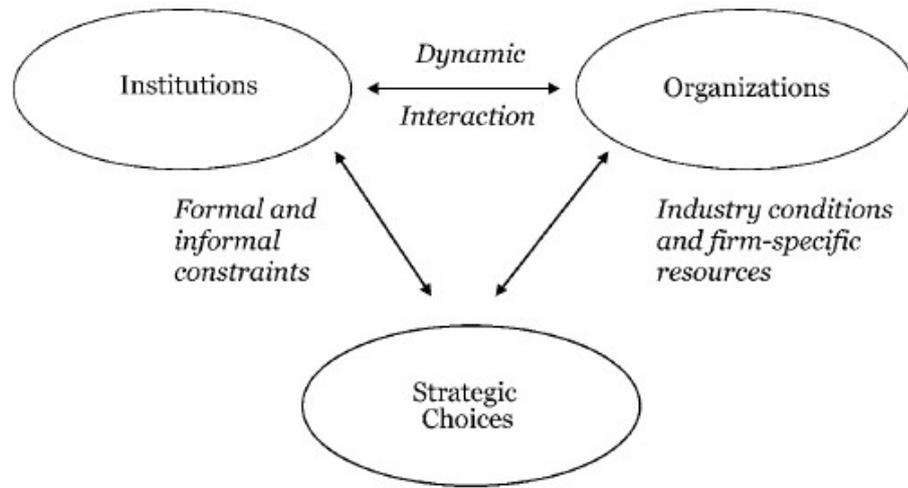


Figure 3-1. Institutions, Organizations, and Strategic Choices (Peng, 2000)

The behaviors of both individuals and organizations are affected by the institutional framework. When individuals make decision, they will consider whether their choices conform to the rules and norms in both formal and informal constraints (Powell & DiMaggio, 1991). Organizations are also influenced by institutional framework for their characteristics and strategic choices. The model (Chart 1) developed by Peng (2000) has explained the relationship between institutions, organizations and strategic choices. Institution, organizations and strategic choices are interrelated to each other. There is a dynamic interaction between the institution and organization. Institutional environment covers the aspect of social, political and legal aspects (Manolova & Yan, 2002). It refers to the micro environment that the government and society established including the political policies, cultural norms, behavioral standards, and social expectations (Aldrich, 1990) to shape the behavior of organizations. Organizations keep modifying their characteristics in order to cope with the institutional environment (Zhang, Zhou, & Ebbbers, 2011) as well as reduce the uncertainty that generate by the change of the environment (Peng, 2000). In this model, strategic choices are considered as the outcome of the interaction between institution and organizations. As Hillman & Keim (1995, as cited in Peng 2000) pointed out that “Institutional frameworks prompted firms to choose certain strategies and constrained them from choosing others” (p45). The decision making of the strategic choices are not only influence by the firm-specific resources and capabilities but also reflect the formal and informal constraints of a particular institutional framework (Peng, 2000).

As the model (Peng, 2000) mainly focused on the study of western firms. In 2002, Peng further introduced and developed this model into the research of the effect of institutions in Asian economics and developed four major dimensions of strategies which are Supplier strategies, Entrepreneurial strategies, Diversification strategies and Growth strategies. Our research target-Acquisitions fall into the second stage of the growth strategies. The three stages of growth strategies are generic expansion, mergers and acquisitions and network

and analysis (Peng, 2002). The institutional framework mainly the formal constraints (Peng, 2002) make an influence on the motivations and decision making of the acquisitions (Buckley P. , Clegg, Cross, Zheng, Liu, & Voss, 2007). Specific regulatory policies of the home country government encourage of the overseas expansion of the firms. And firms make decisions to move abroad in order to escape from the poor institutional environment such as regional protectionism, high tax rates and regulatory uncertainty etc. in the home country (Wang, Hong, Kafouros, & Boateng, 2012).

Based on the theory of Scott (1995) and North, we would like combine their dimensions and understanding of institutions which would be influencing the strategic choice especially on cross-border acquisitions and create a model for the further development.

4 Conceptual model

A conceptual model is developed based on Scott (1995) and Peng (2000) to demonstrate the influence of regulative institutions from different levels.

Chinese multinational companies are faced with a variety impact of institutional factor. Although the rapid development has been conducted recently in China, it doesn't have much application of institutional theory into Chinese cross-border acquisitions (Deng, 2009). With the internal demand of Chinese firms and increasingly intensive competition external-ly, globalization is needed urgently. However, the institutional conditions in home country where undeveloped policy and unsound market system seriously affect the organizations decision-making regarding to their future strategy (Buckley, Clegg, Cross, Zheng, Liu, & Voss, 2007). So in this master thesis, we will concentrate on the analysis of regulative institutions in the view of home country and how can the regulative institutions influencing the decision making of cross-border acquisitions in Chinese companies. Based on the model developed by Peng (2000): Institutions, Organizations, and Strategic Choices; we build a model to extend the relationship between the institutions and strategic choices especially for cross-border acquisitions as showed in Figure 4-1.

The conceptual model presents the strategic choice of cross-border acquisitions which aims to achieve the competitive advantages is influence by the regulative institutions. As Peng (2002) emphasis the strong influence by formal institutions while the impact of informal institutions is weak. Previous research proposed that formal institutions are composed by laws, regulations, policies in the aspect such as political and economical (North, 1990; Tee- gen, 2003; Moshirian, 2007). There is an overlapping between the concept of formal institutions and regulative institutions. Attractive advantages of institutional environment in foreign countries, the constraints of unsound institutional system and the government involvement are driving the decision-making of cross-border acquisitions in Chinese companies dramatically (Deng, 2009; Witt & Lewin, 2007). We further classified the regulative institutions into two different levels that are: the international level and the national level.

- International level
Regulative institutions under the international level regarding to the policies and regulations set by international organizations such as WTO. It is assumed that the regulative institutions from the international level influence the decision making of cross-border acquisitions.
- National level
Country's national policies, laws and regulations are the components under national level as they have been pointed out by Moshirian (2007). There must be certain internal regulative instituions which influence the decision making of cross-border acquisitions.

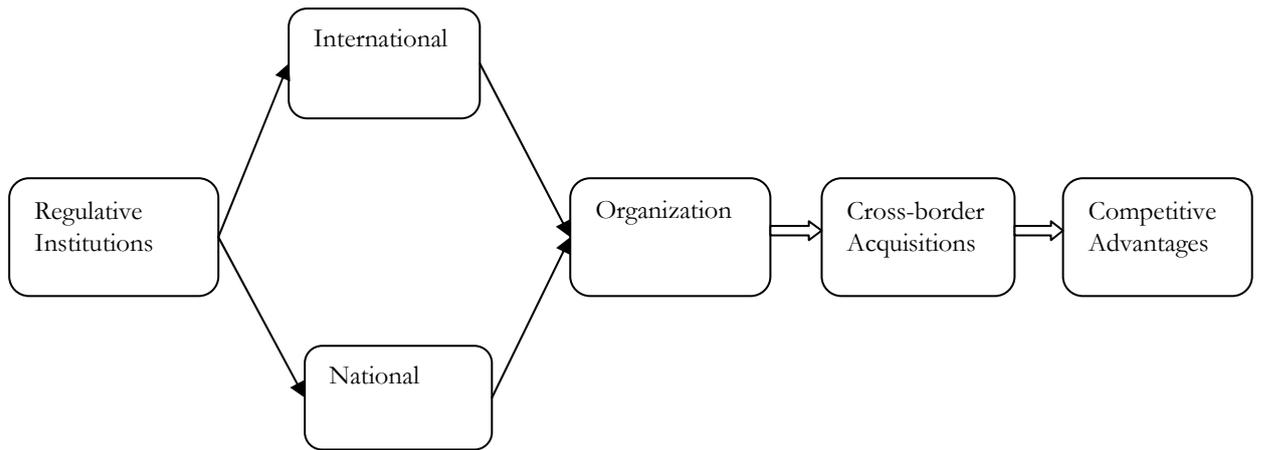


Figure 4-1. The influence of regulative institutions on cross-border acquisitions

5 Findings

This part proposed the findings of the two cases. The background of the company will be firstly introduced. And then the empirical findings will be shown by tables.

5.1 Research Setting

It is necessary to understand the competitive environment in Chinese context before we begin the analysis on Chinese firms study.

As it is mentioned above, Chinese outward foreign investment is growing with a rapid speed. Before 1978, the non-rectification of Chinese economic environment was full of chaos while the central-planned economy dominated in China. However, after several times of volume economic reforms, Chinese economic situation gradually improved. One of the most significant changes is the deep development of the market-oriented economy. In addition, becoming one of the members in WTO made the globalization of Chinese enterprises confront with much broader view and challenges as well. In order to maintain the competitive advantages and manage to survive from this world wide wave, an appropriate strategic choice naturally being considered. Cross-border acquisition as a kind of the most efficient approach can cope with these issues through purchasing the most developed resources and technology directly of overseas. Lenovo, Geely, these large manufacturing companies in China are the pioneers who already have completed the outward acquisitions successfully. We believe such these successful cases also stimulate the imitation of other Chinese company which perhaps will consider about the cross-border acquisition as their next growth strategic approach. In this following section, we will present our empirical analysis by using the model that we mentioned before.

5.2 Case background

5.2.1 Lenovo Group

Lenovo is one of the leading IT companies in China, which was founded in 1984. Lenovo began building its own PC brand in 1990. It became the first Chinese brand in China during the later six years. The strong attribution has been supported from the academic organizations to Lenovo and the closed relationship with the Chinese government also offers the some specific continence from all aspects. In the year 2003, with the expansion globally, the company changed its former brand name “Legend” to the name used today as ‘Lenovo’ showing the globally strategic ambition, “taking the ‘Le’ from Legend, a nod to the heritage, and adding ‘novo’ in the end from the Latin word which means ‘new’, to reflect the spirit of innovation at the core of the company” (Biediger, et al., 2004). In 2004, Lenovo becomes an Olympic worldwide partner. It is the first Chinese company to become a computer technology equipment partner of the IOC (Company History, 2012). Chart 5-1 introduces the main features of the cross border acquisition in Lenovo. At the same year, the cross-border acquisition with the most famous computer manufacturers in America IBM’ PC business was finished successfully, and after that, Lenovo has become the third PC provider in the world.

5.2.2 Zhejiang Geely Holding Group

Geely is rated among the top ten in the Chinese automobile manufacturing industry. It was founded in 1986 by Li Shufu and entered the field of car manufacture in 1997. The head-quarter is set in Hangzhou, Zhejiang Province and established the complete vehicle and power train manufacturing base in many other cities in China such as Shanghai, Jinan, Chengdu etc. Besides, Geely has its R&D center and a manufacturing factor from DSI (Divertrain Systems International) in Australia. With the rapid growth in recent years, the total asset of Geely exceeded RMB100 billion (including Volvo Cars Corporation). There are 4 main brands under Geely which are Geely, Engloncar, Emgrand and Gleagle (Geely, 2011). Geely performed activity in their foreign expansion. It started the overseas cars exporting in 2003 and participated in the Frankfurt Motor Show in 2005 as the first Chinese participant (Shaohua & Tong, 2005). In 2009, Geely received 5% of its total sales from foreign export. In order to obtain a higher speed of growth, Geely adapted the strategy of foreign acquisitions. In 2010, Geely Holding Group took over Volvo which is a well-known luxury Swedish car brand with \$1.8 billion USD (Xu, 2010). Chart 5-1 presents the main features of the cross-border acquisition of Geely. The whole process of acquisition took around 2 years from 2008-2010. In March 2010, Geely and Volvo signed the agreement in Gothenburg and the deal was completed in August 2010 (Geely, 2011).

Chart 5-1. Company profile of selected cases

	Lenovo	Geely
Core business	PCs, mobile handsets, servers, motherboards, and digital products	Automobile vehicle
Firm of acquisition	IBM	Volvo
Host country of acquisition	USA	Sweden
Time of acquisition	2004	2010
Business of acquisition	PC division of IBM - Desktop and notebook computer business - Research & Development centers - Manufacturing plants - Global marketing networks - Service Centers	100% of Volvo Car Corporation

Price of acquisition	USD 1.25 billion	USD 1.8 billion
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5.3 Regulative institutions in the cross-border acquisitions of Lenovo

In order to enhance the competency involving the whole world background compare to the foreign companies in the same industry, Lenovo was attracted by the advantages in foreign countries. In another word, the limitation of unsound institutional system in China, such as the lack of protection of intellectual property, in particular in manufacturing industry, restricted the development pace of Lenovo. At the very begging of the establishment of Lenovo, Chinese government did not attach importance to encourage them to build national brand by refusing the application of production permission. However, the national policies also provide an open mind to Lenovo because they started to understand the meaning of open mind to the world especially after joining the WTO. For example, Lenovo is one of the 120 State pilot enterprise groups, and it also got the permission for establishing the headquarters in New York. Government’s “going out” strategy offered an unprecedented opportunity to enter the international market. Therefore, we can see some regulative institutions from international and national level are mainly influencing the Lenovo’s decision-making of cross-border acquisitions.

Chart 5-2. Findings of Lenovo

Lenovo			
Institutional Level	Regulative institutions		Findings
	General	Specific	
International	Policies and regulations of international organizations	China became a member of WTO in December, 2001	“WTO encourage the cross-border acquisition of Lenovo” – CEO Yuanqing Yang, 2004
National	National Policies	“Going out” Strategy	Lenovo actively responded to the “going out” strategy (Deng, 2009)
		Chinese institutions restricted the development of Companies.	Lenovo did not get the permission of production in 1984.

		Supportive policy for Lenovo	- Lenovo is one of the 120 State pilot enterprise groups. - Government permitted Lenovo to establish headquarters in New York” (Deng, 2009, p. 80).
		Develop self-brand identity	“The internationalization of Lenovo is a way to develop the national brand recognition which contributes to the policy of building national brand.” – Dr. Shixian Zhang, 2005
	National law & regulation	Intellectual Property Law	Lenovo international intellectual property system

5.4 Regulative institutions in the cross-border acquisitions of Geely

From the international lever, becoming one of the members in WTO made some impact to Chinese institutional situation. The rules within WTO regulate the cross-border investment process and set the antitrust policy and in order to adapt this, Chinese government also adjusted their institutional system (Wenhua, 2006). From the national lever, Geely forced to focus on the low-end market because they cannot compete over other automobile companies in the same market. The unsound institutional system failed to provide the national intellectual property. However, China has started to enhance the institutions to build their national brand and adopted National Development Plans. Geely followed the “going out” strategy formulated by the central government and make the international strategic decisions such as acquisitions which cope with this national policy (Geely, 2011). The decision making of acquisition of Volvo has received a strong support of national government. Jian Yao, the representative of Ministry of Commerce stated that the acquisitions of Volvo can make contributions to the government planning of manufacturing industry which aims to building self-brand identity by obtaining the high technology as well as the brand equity (Wen, 2009). Geely has received the financial support from government. On the press conference of the acquisition of Geely to Volvo on March 30, 2010, the CEO of Geely Shufu Li admitted that Geely has had obtained the financial support. They loaned to some of Chinese state-owned banks which provide the most part of the sources of funding for \$10 billion USD for this acquisition (Auto.ifeng, 2010). According to the local newspaper Zhe-

jiang Daily, the local government also offers the financial for the capital raise of the acquisitions.

Chart 5-3. Findings of Geely

Geely			
Institutional Level	Regulative institutions		Findings
	General	Specific	
International	Policies and regulations of international organizations	Following the WTO policy, Chinese government adjusted the policy system in Chinese autos industry.	“WTO offered more chance for Geely to expand internationally”—Donghui Li (vice-president of Geely), 2012
National	National Policies	“Going out” strategy	“Geely followed the great state economic strategy of ‘going out’ ” (Overseas Business, 2012)
		National automotive industry Eleventh Five-Year Development Plan	Take full advantage of both domestic and international market and resources in developing the national brand recognition.
		Diversify the types of ownership, assist the private-owned enterprises	“The pattern of ownership in the economic system should be more diversified.” -- Ms. Houyuan Xin(the head of Overseas Investment Research Center in International Trade and Economic Cooperation Research Institute), 2010

			<p>“The private-owned enterprises are active, creative and competitive. They have a high potential in the international market and require a larger support from the government.” – Shufu Li (CEO of Geely), 2012</p>
			Ministry of Commerce support the acquisitions of Geely
		Building national brand recognition	<p>“Take full advantage of both domestic and international market and resources in developing the national brand recognition.”-- National automotive industry Eleventh Five-Year Development Plan</p>
			The reformation of automotive industry should keep following the direction of technology improvement and building national brand recognition -- Chinese twelfth five-plan
		National policies provide financial support for cross-border acquisitions	Received financial support from state-owned bank
	National Laws & Regulations	Intellectual Property Law	Low-end products and lack of innovation and core technology in Geely.

6 Analysis

This section presents a cross case of the regulative institutions influencing the decisions of cross border- acquisitions. It compares the institutions influencing the decisions of two manufacture companies in China.

6.1 Regulative institutions on international level

The regulative institutions of WTO on international level result in a high tendency of both Lenovo and Geely in strategic choices of cross-border acquisitions.

The CEO of Lenovo Yuanqing Yang pointed out in an interview by Jun Lu in December 2004 that “WTO encouraged the cross-border acquisition of Lenovo towards IBM. WTO leads us to the international market.” China opens up its market to the world for international trade and foreign investment after becoming a member of WTO. Nevertheless, joining WTO brought both positive and negative impacts. According to regulations set by WTO, China lowered the import tariffs and permitted the direct sell of foreign firms to the domestic market (Chow, 2001). Under this circumstance, the national enterprises were threatened by the foreign competitors because of their weakness in technology innovation and market share. In order to increase self-competence, cross-border acquisitions become the most preferable strategic choices. However, Geely regarded joining WTO as an opportunity for development. The fierce competition resulted in a change of bureaucratic market economy in which state-owned enterprises were highly protected (Chow, 2001). The high competitive pressure forces China to reform their economy systems and pays more attention to the private-owned enterprises. Mr. Shufu Li (CEO of Geely) stated that although WTO brought the competition, it gave an impetus to Geely to improve itself and be aware of its weakness-short of advanced technology and strong brand identity when compared to those advanced foreign automotive enterprises (Huang & Liang, 2011). WTO pushed both Lenovo and Geely to adopt cross-border acquisitions for resources that enhance the competitive advantages.

6.2 Regulative institutions on national level

The government policies as well as the national laws and regulations indicate that the national government is now highly encouraging and supporting the cross-border acquisitions. In the both cases of Lenovo and Geely, the strategic choices of cross-border acquisitions are positively influenced by national policies.

6.2.1 National policies

Lenovo and Geely both show their active responses towards the policies of national government in achieving globalization. Chinese government has devoted itself to become a more international and active participant in global trade and economic activities. In 1978, the implement of national policy “opening up” began the liberalization of Chinese economy. The central government adopted its economy to international practice by increasing the corporation and communication with the other countries. In order to consolidate and reinforce the “opening up” policy, a strategy of “going out” has been formulated by the

central government. This idea was first raised by President Jiang Zemin in early 1990s and was officially included in the Chinese tenth five-plan in 2001 (Gonzalez-Vicente, 2011). The core idea of the “going out” strategy is to encourage the Chinese business to conduct the foreign investment, expand the field and channel of international economic and technological corporation. At the same time, government needs to keep completing the institution both politically and economically, and provide the beneficial environment for foreign investment (General Office of the State Council of the People’s Republic of China, 2001). According the opinion of “When institutional rules or norms are broadly diffused and supported, organizations will be predicted to acquiesce to these pressures because their social validity is largely unquestioned” (Oliver, 1991), the “going out” strategy in China has been promoted wildly and accepted by public generally. The government repeatedly emphasizes the importance of this globalization strategy and regards it as a principle and guideline in the internationalization of China.

With the direction of “going out” strategy, national government also formulates a series of policies that support the choice of cross-border acquisitions. Those policies present the role of government in cross-border acquisitions- encouragement and supportive environment construction.

Lenovo is listed as one of the 120 State pilot enterprise groups. According to the “*The implementation measures of Pilot enterprise groups in the state plan*” promulgated in 1991, the State pilot enterprise groups are enterprise groups with large scales of production, strong financial background, sound internal organization structure, high competence in related industries and support for national economic development. This regulation indicated the government support for enterprise groups, giving them greater autonomy in decision-making power of foreign investment like cross-border acquisitions. To further promote the cross-border acquisitions of Lenovo, Chinese government also permitted Lenovo to establish headquarters in New York (Deng, 2009, p. 80).

The national government is increasing their concern about the private-owned enterprises such as Geely. Mr. Shufu Li, CEO of Geely, mentioned that the private-owned enterprises had a larger potential in the international market as they contained the characteristics of activation, creation and competition. In order to maximize their contribution to the national economy, more support need to be provided by the government (ICEO, 2012). In the interview of Ms. Houyuan Xin, head of Overseas Investment Research Center in International Trade and Economic Cooperation Research Institute conducted by Phoenix TV in March 2010, she said that the pattern of ownership in the economic system should be more diversified. The Ministry of Commerce which supervises the cross-border acquisitions actively promoted Geely adopting the acquisition as it was a way to enhance the competitiveness of the firms and gradually increase the proportion of private-owned enterprise to the state economy.

In order to enhance the competency in the whole world background, Lenovo was attracted by the advantages in foreign countries. In another word, the limitation of unsound institutional system in China, such as the lack of protection for intellectual property, particularly in manufacturing industry, restricted the development pace of Lenovo. At the very beginning of the establishment of Lenovo, Chinese government did not encourage them to build

national brand by refusing the application of production permission. However, the national policies then also provided an open mind to Lenovo because they started to understand the meaning of open mind to the world especially after joining WTO. For example, Lenovo is one of the 120 State pilot enterprise groups, and it also gets the permission for establishing the headquarters in New York (Deng, 2009). Government's "going out" strategy offered an unprecedented opportunity to enter the international market. Therefore, we can see that some regulative institutions from international and national level are mainly influencing Lenovo's decision-making of cross-border acquisitions.

In the financial perspective, the encouragement of government was presented in two aspects: First, by using the macroeconomic control and adjustment, government offered good financial environment and provided the protection for cross-border acquisition (Zhou, 2009). On one hand, the excessive foreign exchange reserved the gradual depreciation comparative to Chinese Yuan. Institutional incentive of Chinese companies acquiring foreign assets has been driven by this phenomenon, because government wanted to increase foreign exchange utilization to minimize the loss. On the other hand, the stability of Chinese Yuan in the international currency market gave Chinese companies much stronger purchasing power and capabilities compared with other countries, thus it effectively decreased the cost of cross-border acquisitions indirectly. The national government owns the excellently appropriate financial conditions that are driving enterprises to choose the cross-border acquisitions as their strategy. Second, national government gives financial support by implementing series of policies. For example the special loan and "preferential export credit interest rates" will be provided for cross-border acquisitions as stated in *"Notice of the National Development and Reform Commission, the Export-Import Bank of China on Giving Credit Support to the Key Overseas Investment Projects Encouraged by the State"*. Besides, verities of funds have been set up by the national policy banks to provide the capital of cross-border acquisitions (Zhou, 2009). Government adopted the economic policies to show their encouragement of Geely's cross-border acquisition by providing the financial assistance.

6.2.2 National Laws and regulations

The support of the government by means of the formulation and improvement of legislation and policy have provided a favorable environment and encouraged Chinese business to achieve globalization through cross-border acquisitions. The process of cross-border acquisitions has been regulated by series of laws and regulations. For example in *"The Measures for Overseas Investment Management"* issued by the Ministry of Commerce on May 2009, the approval procedures of the acquisitions by Ministry of Commerce have been simplified as well as clarified and shortened the time of approval. The Measures also indicated that the enterprises could receive government support after application of cross-border acquisitions has been approved (Zhou, 2009).

However the constraints of lacking imperfect intellectual property protection law and regulations also push enterprises to adapt cross-border acquisitions. Lacking of regulation for the intellectual property rights results in a negative image that China is considered a "me-too" producer that always imitate the product of other companies (Biediger, et al., 2004). Meanwhile, it discourages the innovation of Chinese firms. Instead of creating new prod-

ucts, Chinese firms compete on high volume and low price by imitating others products or act as an “agency” of distribute the product from foreign firms (Deng, 2009). This situation puts Chinese firms in an inferior position among the global competition for the weakness of innovative technology and brand identity. Therefore for firms who would like to achieve fast improvement in technical aspect and the brand awareness, cross-border acquisitions become their most preference strategies. Lenovo encountered the barriers of technology innovation during the process of development. The products of Geely were in the scope of low-segment. Although it had an excellent performance in technology innovation, it was difficult for the company to upgrade their brand image. In order to overcome this disadvantage, both Lenovo and Geely chose cross-border acquisitions as their strategies.

7 Discussion and Conclusion

According to the findings and analysis, the summary, contribution of the research, limitations and future research will be discussed in this section.

7.1 Summary of the findings

The aim of this research is to investigate the influence of regulative institutions towards Chinese cross-border acquisitions with the main motivations of increasing the competitive advantages. Through the findings and analysis, we conclude that it is the regulative institutions that influence the decision making of cross-border acquisitions.

The regulative institutions were divided into international regulative institutions and national regulative institutions. On the international level, the organizations decision making are positively influenced by the international organizations such as WTO. The regulations formulated by international organizations highly regulated the global trade environment. The derived competition and opportunities push firms to choose cross-border acquisitions in order to win in the high competitive global market. On national level, national policies as well as the laws and regulations shaped the choice of cross-border acquisitions. National policies acted as guidance for the performance of the firms and provided a favorable environment for cross-border acquisitions. Laws and regulations were tools to regulate the cross-border acquisitions. Especially in the Chinese manufacturing industry, cross-border acquisitions are chosen for the reason of acquiring the advanced innovation technology and creating national brand recognitions, which are the strategic goals set by national policy for manufacturing industry.

The influence of regulative institutions towards the decision making of cross-border acquisitions in Chinese manufacturing industry is presented in three ways. Firstly, the supportive regulation institutions create a favorable environment for cross-border acquisitions. As discussed in the cross-case analysis, the policies together with the laws and regulations minimize the institution barriers and highly encourage organizations to adapt cross-border acquisitions. Organizations have a higher preference in choosing cross-border acquisitions and take advantages of the government assistance. Secondly, government promotes cross-border acquisitions by using policy as guidance. The insistence of national policy of “going out” provides a strategic direction for organizations. In the periodical development plan, government specifies the cross-border acquisitions as a measurement that can contribute to the national globalization. Organizations which follow the directions of the national government have more preference in choosing acquisitions. Thirdly, the imperfect legal system impedes the organizations progress. Organizations choose cross-border acquisitions as a strategy to obtain resources and market externally and to increase competitive advantages.

7.2 Research contributions

The main contribution of this master thesis is that it illustrates the influence of regulative institutions towards the organizations’ decision making of cross-border acquisitions. The regulative institutions which refer to policies, laws and regulations of both international level and national level have great impacts on organizations. Organizations select cross-

border acquisitions as their strategies according to the regulative institutions for achieving competitive advantages.

Especially in Chinese manufacturing industry, the national government has a stronger macro-control over the organizations as this industry acts as a leading sector in the national economy. In the manufacturing industry, the innovative technology and national brand recognition are the biggest weaknesses. One of the reasons that result in these weaknesses is the imperfect legal systems and policies. Chinese government is now devoting itself to overcome them by keep improving the regulative institutions. Cross-border acquisitions as favorable strategies to increase the competitive advantages need to be kept encouraging by national government.

7.3 Research limitations

There are certain limitations of our research. We are not able to conduct in-depth interviews which may provide more information directly related to our research. The reason is due to the geographic constraints of Sweden and China as well as the Chinese business environment, where the top levels of organizations are difficult to reach. The data collection is limited to the secondary data which require more time in finding and interpreting.

7.4 Future research

While our research is only focused on the influence of the regulative institutions in the view of home country, there are several fields that are opened up for the future research. First, the future research can be conducted to investigate the impacts of normative institutions and cognitive institutions that Scott (1995, cited in Yiu & Makino, 2002) pointed out together with regulative institutions toward the cross-border acquisitions decisions; and to compare whether their impacts are as strong as regulative institutions. Second, the research of host country institutions can be proceed in the study of cross-border acquisitions decision making as both home country and host country are participants in this strategy. Furthermore, during the decision making of cross-border acquisitions, how is the interaction between home country institutions and host country institutions? Last but not least, the manufacturing industry is classified into different elements and each of the elements carries their own characteristics. The future research can extend to study the institutions involving a specific sub-industry which can offer a more correspondent analysis.

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