



## ARTICLE

# Strategic Asset Seeking: A Motivation of Chinese Business Groups' International Operation

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### ABSTRACT

Since the development of Chinese firms, more and more Chinese firms would like to operate their business over the world to increase their strength. For the difficulty of expanding the scale of the company in a short term, many Chinese firms made use of strategy asset seeking to achieve their goal. This article will develop the evidence of Haier Group and Lenovo Group and find the role and effect of their outward strategy asset seeking.

## 1. Introduction

Since the economic reform in 1978, China have absorbed a large number of foreign direct investment (FDI) in China. However, the development of outward FDI is not as fast as inward FDI. These years, with the government's "go out" policy, the outward FDI have developed rapidly. In 1998, the outward FDI was only 2.2 billion dollars, and 2.8 billion dollars in 2003. However, it had achieved 59 billion in 2010 (Zhang 2003: 104; Zhang 2011: 75). The private firms are a part of these investments. On one hand, China's policy encourages the private firms to invest outside, even provides them some benefits to support. The private firms may find the tax havens and offshore

financial centers to do the business such as Hong Kong and Cayman (Sutherland 2010: 2). On the other hand of economy, there is a hypercompetitive domestic economic environment in China. 'This has made it difficult for domestic firms build up competitive advantage outside the domestic space' (Boisot and Meyer 2008: 350). Strategic assets are one of the most important resources for Chinese firms to seek outside the world. This essay will discuss Chinese firms' international operations through the motivation of strategic asset seeking, focusing on the strategic asset seeking of Haier and Lenovo Group's case study. Finally analyze the argument: strategic assets seeking is a motivation for Chinese business groups internationalize their operation.

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## 2. Background and Literature Review

Based on mainstream literatures, there are four motivations for China's outward FDI: market seeking, diversification seeking, resource seeking and strategic assets seeking investment (Yan 2013: 129). Strategic assets seeking is one of the most significant aim for Chinese firms' outward FDI. Strategic assets mean the firm's core resources and capacities of competitive advantages. Instead of nature resources, strategic assets are the created assets from a long period working. The strategic assets is difficult to transfer and cannot repeat. It is the core competence for a company (Li, 2005 cited by Li 2011: 96). Chinese firms are lack of strategic assets. So, the motivation for Chinese business groups internationalize their operation is for strategic assets seeking. There is an author named Deng Ping, he mainly studies this area. He published three articles in this area. He thinks, the investing for strategic resource is a case of Chinese firms' outward FDI (Deng 2007: 71). In the next paragraphs, the writer will use Deng's articles as the key resources, to prove the argument that Chinese business groups internationalize their operation in order to receive strategic assets.

## 3. Strategic Asset Seeking OFDI: Evidence

After economic reform, there are great increasing numbers of inward foreign direct investment in China. Many international firms think highly of China's benefits, such as market, consumers market and cheap labor force. So, the outward FDI seems less significant (Deng 2007: 72). These years, many Chinese firm started to do some investments in other countries especially in the developed countries. In 2002, 'China became the second largest outward investor among all emerging countries; by 2004, 5163 Chinese firms had invested a total of 44.8 billion dollars abroad' (MOFCOM, 2005 cited by Deng 2007: 72); in 2006, the numbers increased to 10,000 firms, and invested 73.33 billion dollars nearly all the countries worldwide (MOFCOM, 2007 cited by Deng 2009: 79). In these outward FDI, Chinese firms focus on the areas of Hong Kong and the United States. According to the United States Bureau of Economic Analysis, Chinese firms had established 646 research and development centers in the United States. Most of them are manufacture sectors (Deng 2007: 72). Chinese firms are expanding their international operations to seek better resources, and these developments will not succeed without China's government support. According to Deng, 'Chinese policymakers have recognized outward investment as a necessary stage of Chinese companies' growth and occupying in global market'. So, they encourage and support for key firms to go globally (Deng

2007: 72). The two examples in next sections, Haier and Lenovo Group, are all benefited from the government support. China is a centralized country; all the firms are under the government's control. So, the government policies are extremely important for the firms to go abroad.

As it was mentioned, because of the benefits, a large number of China's firms invest their companies outside. The writer thinks, most of the outward FDI are seeking strategic assets. Some studies concluded that there are many disadvantages for developing countries' multinationals compared to MNCs from developed countries by the limited technology and internationally known brands and trade names (Child and Rodrigues 2005: 386). So, in China's outward FDI, the firms are in a situation of disadvantage-based merger and acquisition (M&As). Which means, the weak Chinese firms acquire the strong company in the developed country, to receive the strategic asset. Technological innovation seeking is one of the aims for Chinese firms to seek (Rajeswary 2000: 138). For example, the Lenovo Group purchased IBM, and acquired its personal computing technology. It will cost a long period and very difficult for Chinese firms to develop the technology independent, but a faster and easier method to purchase these mature technologies from developed countries.

In October 2000, 'the Chinese government formally announced the "go global" strategy as part of its long-term development plan'. In this plan, the government encouraged Chinese firms to invest overseas companies and 'utilize internationally advanced technologies, managerial skills and professionals' (Deng 2007: 72). The "go global" strategy is including the brand resource seeking, such as Haier Group. The aim of its outward investment is to establish a globally brand. Actually, there are some achievements in China's outward FDI these years. In 2004, China's outward FDI is equal to the inward FDI (Deng 2007: 72). In addition, China's firm's 'international expansion as a springboard to counter-attack global rivals' major foot' (Luo and Tung, 2007 cited by Sutherland 2009: 19), then, acquire strategic assets from developed market economy to support globalization strategy (Sutherland 2009: 19). Finally, Chinese government wants China's firms to go abroad and join the Global 500 companies or build Chinese international brands (Deng 2007: 72). So, strategic asset-seeking is one of the motivations for Chinese business groups international their operation.

## 4. Strategic Asset Seeking OFDI: A Case Study of Haier Group

Haier Group is well-known Chinese firm. It has internationalized its operation through the greenfield estab-

ishment to seek strategic asset for international brand building. Haier began in 1984 as a collectively-owned enterprise, it mainly product manufactured goods, includes air conditioners, microwave ovens, refrigerators, microwave ovens and televisions. Because of the company's international strategy, it became to one of the first Chinese enterprises to implement an internationalization strategy' and 'started to export to Europe and the USA in 1990 and to Japan in 1991' (Child and Rodrigues 2005: 394).

Haier Group is an example of China's firm that use greenfield investment to seek strategic asset. Which means it finds a new market in another country. For example, in America, the Haier branch companies will adjust its products to local market need. 'It set up a marketing center in New York, and design the research and development centers in Los Angeles and Boston', to transfer the technology and products for the local consumers' need (Deng 2007: 74-75). In April 1999, the firm invest 40 million dollars in South Carolina as the largest Chinese greenfield investment in the United states. Actually, the investment was successful, by 2004, 'the factory was turning out 400,000 family-size refrigerators per year (Haier Group, 2004 cited by Deng 2007, 75). Haier Group invested successfully in the United State, but many people would ask, why Haier choose to open a factory in such high labor cost area in the United States? Some literatures proved, the company wants to bypass non-tariff barriers on Chinese appliances import (Deng 2007, 75). In addition, Haier's investment in the United States is a long-term strategy. The firm's key strategic asset seeking was to establish a global recognized brand. In 1999, Haier set the goals of entering the world's 500 largest companies, and building an international well-known appliance brand. To achieve this aim, the companies have built a large number of factories around the world in the next several years. 'By 2004, it had set up 18 design institutes, 13 overseas production factories, with 58,800 sales agents worldwide' (Deng 2004: 13). Therefore, the most significant aim for Haier Group is to seek the international brand. It is an important section in strategic asset seeking. Besides, the America's design research, innovation and technology are all the strategic asset which Haier Group is interested in (Haier Group, 2004 cited by Deng 2007, 75)

Haier Group is one of the most successful firms in outward FDI. It thinks highly of American market. In 2000, Haier invested 40 million dollars to construct a factory in Camdens, South Carolina, and its market share reached 25 percent in 2001 in the United State. In recent years, Haier Group still focus on the international expansion. For example, in washing machine sector, the business accounted for 8.4% of market share through the worldwide

washing machine brands in 2009 (Haier annual report, 2009), the market share increased to 9.1% of the retail sales, and keep the first in the world (Haier annual report, 2010). This means, Haier's international brand is well-known through the world and it achieves the goals in some degree. As a result, Haier have achieved its aims. Now, Haier is an international stock business group. It holds five brands' subsidiaries. The first brand is Casarte, it is an international premium brand of electric appliances and kitchenware from Italy. This brand came up with the "Art" concept of kitchen. Leader is Haier Group's third brand after Haier and Casarte, its design is mainly based on consumers' demands of household appliances. The brand of Aqua is also an international brand from Japan, it mainly product washing machines, and protects the environment in the same time. The final international brand is from New Zealand, named Fisher and Paykel. It 'has been designing products since 1934 and has grown into a global company in 50 countries including the United States, Mexico and Italy'. What's more, with trends of internet age, Haier Group develops its electronic commerce brand of Goodaymart. The customers can purchase the household goods through the internet conveniently (Haier Brands 2014). These international brands are Haier's strategic assets, they help Haier to established its international market. All of Haier's strategic assets develops Haier Group's international operations.

## **5. Strategic Asset Seeking OFDI: A Case Study of Lenovo Group**

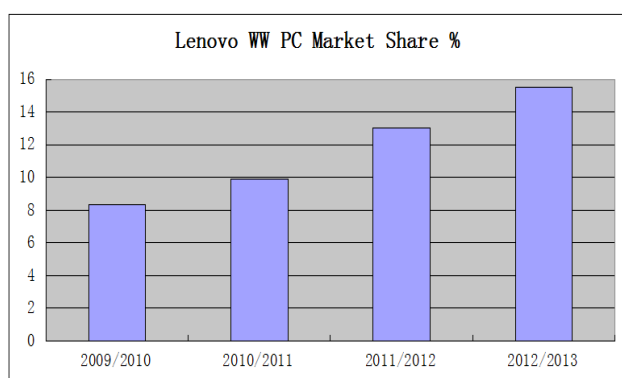
Another method for Chinese firms to "go global" is mergers and acquisitions (M&As)

Compare with greenfield entry, M&As is an easier way to seek strategic asset because the parent company purchase the foreign subsidiary directly, to acquire its brand, foreign market and customers, especially, the technology. Lenovo Group is a typical international M&As for technology seeking.

In December 2004, Lenovo Group acquired IBM's Personal Computing (PC) business for 1.75 billion dollars. It was the largest ever foreign investment for Chinese manufacturers. 'As part of the transaction, Lenovo acquired the "Think" family group of products. The "Think" group included ThinkPad notebooks, ThinkCentre desktop and ThinkVision monitors, as well as a full line of PC accessories and options (Deng 2007: 76). Lenovo Group purchased IBM's PC business is a prominent example of M&As to strategic asset seeking outward FDI. So, why do Lenovo Group choose IBM group? Why did they succeed in the case of mergers and acquisitions? In IBM group's

international competition, they would give up some business which lost the main competitive advantages. In this period, the purchase price is more reasonable, and it is easier to cooperate with the parent company after M&As, then achieve a better synergistic effect in China. For Lenovo Group, it mainly acquires IBM's technology, included research and development technology and ability, the brand and more than 4000 patents (Li 2011: 99-100). The strategic resources were not only for the products and technology, but for IBM's talents. 'As one senior manager commented, the Lenovo Group has the world-class managerial team from IBM, and that is invaluable' (Lenovo, 2005 cited by Deng 2007: 76). Chinese firms lack technology and innovation 'because they have historically suffered from a weak national innovation system' (Nolan, 2001 cited by Deng 2007: 77). The lack of innovation technology results in low quality product have bottlenecked economic growth (Deng 2007: 77), and lost the competitive edges in globalized world today.

This M&As have made great positive consequences for Lenovo Group. According to a senior manager with Lenovo Group: 'If Lenovo had done itself, it would have taken several times the money and even eight to ten years. Most importantly, those efforts would not have necessary guaranteed that we would reach those achievement, as IBM PC unit had' (Lenovo, 2005 cited by Deng 2007: 79). What's more, the management team and technological talents will not only bring their core technology from IBM, but will continue to research, develop and innovate their products in Lenovo Group. After the M&As in 2004, Lenovo's operating performance is increasing especially in recent years. The Lenovo Group's global PC market share shows as follows (Figure 1):



**Figure 1.** Lenovo WW PC Market Share (%)

**Data resources:** Lenovo Annual Report, 2012/13.

After the 2008 financial crisis, Lenovo's PC operation is increasing continuously. The market share in 2009 was 8.3% in the world. When it came to 2013, the market share had reached 15.5%. It was the first in PC operation

in the world (Lenovo annual report, 2012/13). In addition, it is worth to mention in 2004, China's domestic PC market share of Lenovo was 26.3% (Lenovo annual report, 2004/2005), but in 2008, the percentage had increased to 28.8% (Lenovo annual report, 2008/2009). In these data, Lenovo Group's development is rapidly after it purchasing IBM. The IBM group provide the technology and other strategic assets, such as brand names, as well as access to U.S. markets and costumers (Lenovo, 2005 cited by Deng 2007: 79). Finally, IBM's strategic assets helps Lenovo achieve the first PC brand in the world, and internationalize its operations.

## 6. Conclusion

It was the aim of this article to discuss the relationship between the strategic assets seeking and Chinese firms' international operations. In the article, the author use the evidences and two case studies of Haier and Lenovo Group to support her argument. The results showed when Chinese firms go abroad, strategic assets seeking is one of the most important motivations. There will be more and more Chinese firms willing to invest abroad. To conclude, strategic assets seeking is a motivation for Chinese business groups internationalize their operation.

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