



You Wei and Wu Wei: Ambivalence of Chinese Outbound Mergers and Acquisitions

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## English Summary

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

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

Chapters 2 and 3 explored the role of the Chinese government in Chinese outward M&As. Chapter 2 discussed the role of the Chinese government in China’s technology innovation process. The case study suggested that the government has led the transformation of China’s high-speed rail (HSR) technology development. To be specific, the government has assumed an entrepreneurial role and is alert to the opportunity to develop HSR technologies. Furthermore, the government has performed resource exploration and resource consolidation to exploit the opportunity. In addition, the successful opportunity exploitation over time is attributed to the government’s strategic learning. In so doing, the technology innovation opportunity can be exploited appropriately and effectively. In short, Chapter 2 contributes to the literature by building a conceptual framework of the emerging economy “entrepreneurial state”.

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

Chapters 4 and 5 aimed to explore the strategies of CMNEs in dealing with their outward M&A activities. Chapter 4 studied an overlooked phenomenon of the legitimization process of Chinese outbound M&As. Using multiple case studies, the study found that different from DEs where real stakeholders are predominant, in China, the institutional investors, the government and officials as stakeholder-watchers and stake-keepers are more salient in determining M&A legitimacy. Meanwhile,

although the government plays multiple roles as stake-keeper, stake-watcher and as a real stakeholder simultaneously, the multiple roles need to be treated independently in the legitimization process of outbound M&As. CMNEs tend to adopt manipulation, negotiation and adaption towards real stakeholders, stake-watchers and stake-keepers, respectively.

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

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

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