What is "strategic asset seeking FDI"?

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Abstract

Purpose: The concept of 'strategic asset seeking FDI' is frequently used in discussion of emerging economy MNEs, but challenged by some scholars. I argue that we need this category because an important type of FDI is not captured by the other motives identified by John Dunning, namely market-seeking, efficiency seeking and natural-resource seeking FDI.

Design/methodology/approach: I illustrate the phenomenon of strategic asset seeking FDI with case examples that form the starting point for my theoretical arguments.

Findings: Some foreign FDI is undertaken explicitly with the aim to use assets acquired abroad to enhance the operations of the investor in other markets, including notably the investors' home market. This contribution to capability building processes of the MNE indeed constitutes an important and distinct type of investment motive.

Originality/value: I conclude that Dunning's typology remains a powerful tool to analyze contemporary business strategies, but suggest refining the definition of the categories.

Introduction

The identification and classification of investment motives is important for foreign direct investment (FDI) research because the objectives of an action determine how the performance should be assessed. For example, if an FDI project is undertaken in pursuit of foreign markets, then the performance may be assessed by the market share in the relevant markets, or by the financial performance of the subsidiary. If the objectives relate to efficiency, then the

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performance assessment will focus on indicators of productivity and costs. If the objective is natural resource seeking, then the costs and stability of the sought inputs would be appropriate performance indicators. But what is strategic asset seeking FDI, and how can we tell if a firm have been successful in its strategic asset seeking FDI?

First proposed by John Dunning (Dunning, 1993; Dunning & Narula, 1995), the concept of strategic asset seeking has recently been used by several authors to describe FDI by emerging economy MNEs, specifically to highlight what appears unconventional about some of their FDI projects (e.g. Deng, 2009; Rui & Yip, 2009; Cui, Meyer & Hu, 2014). Strategic asset seeking is one of four categories of FDI motives, the others being market-seeking, efficiency-seeking, and natural-resource-seeking (Table 1). However, the concept lacks consistent usage and interpretation, and some even suggest it would be redundant.

<<< Insert Table 1 about here >>>

In this commentary, I will first briefly review to lines of argument suggesting that the concept is redundant. Then, I discuss why for emerging economy MNEs, this category is important as some of their most important FDI projects that are not captured by the other three motives. Specifically, these investors acquire assets overseas – often entire firms – with the aim to enhance their capability portfolio in the home country or in third country markets. While these projects may not be many, they are strategically important to the investing firm, have substantive impact on stakeholders at home and abroad, and are often very large. These projects are captured by the category of strategic asset seeking FDI, though the concept needs further clarification and development.

Critiques of the Concept

Two lines of theoretical argument suggest that the concept of strategic asset seeking is in fact redundant because all FDI projects can appropriately be captured by the other three categories. The first line of argument is based on theories of FDI that (implicitly or explicitly) assume that the purpose of FDI is to exploit the firms resources (or firm-specific advantage) overseas. This assumption was central in Vernon's (1966) product life cycle model of FDI. Although most contemporary scholars recognize that Vernon's model explains a pattern that was specific to the economic conditions of the post-world war II world (i.e. the economic dominance of the USA), some scholars still make that assumption. For example, Alan Rugman argues "*Dunning made the unfortunate theoretical mistake of adding a fourth motive for FDI: asset seeking (sometimes called strategic asset seeking). This is a motive which is inconsistent with the OLI framework, which builds upon MNEs developing FSAs based on their home country where home CSAs matter. With asset seeking, the MNE subsidiary somehow needs to acquire knowledge assets owned by foreign MNEs in their own patch (…). Well good luck to these subsidiary managers. Somehow, they need to acquire (steal) FSAs from strong rival MNE parent firms. They shall seek but they shall not find*" (Rugman & Nguyen, 2014: 54).

The problem with this view is it implies a narrow view of the purpose of FDI as being solely a means of resource exploitation, but not as means of resource exploration. Empirical observations as well as theoretical work in strategic management suggest that resource augmentation (or exploration) is a common motive of FDI. While such strategies may create managerial challenges in the implementation, for some firms –especially emerging economy MNEs –this motive is important. Their primary aim is to develop the parent firm's capabilities through an aggressive internationalization strategy. In my view this strategy is consistent with most theoretical approaches of FDI, including the OLI paradigm.

The second critique arises from confusion as to what is actually meant by the concept. The strategic objectives of a firm are often stated in terms of market positions that a firm wants to achieve (Porter 1998). Therefore, any acquisition of an asset that substantially advances a firm towards achieving its aspired market position is 'strategic'. Similarly, an acquisition may enhance a company's supply base or production operations and thereby help the company get closer to its strategic objectives. In the Porterian sense, these are all 'strategic' acquisitions. While Used in this way, the concept of strategic asset seeking FDI essentially becomes synonymous with 'foreign acquisition', and overlaps with the other three concepts. Hence, it would not constitute a distinct category, and hence is not helpful to clarify FDI motives.

This interpretation is consistent with the original wording of Dunning's definition. In his original work Dunning (1991) describes strategic asset seeking as 'to create or gain access to resources and capabilities that complement their existing core competencies' (Table 2). However, the subsequent literature has developed definitions that focus on the impact of those assets on the MNE itself beyond the scope of the foreign operation. Such a more specific definition has also been employed in studies co-authored by Dunning himself: Dunning and Narula (1995) refer to the competitive advantage of the investing firm, other authors refer to ‘advancing global competitiveness’ as distinct from local competitiveness (Dunning & Lundan, 2008; Cui, Meyer & Hu, 2014).

<<< insert Table 2 about here >>>

The critical distinction is, in my opinion, that strategic asset seeking FDI is concerned with the capabilities of the *investing* firm, and its *global* competitiveness. With ‘globally’, I here refer to markets other than those served by the acquisition target. In other words, if a firm wishes to strengthen its position in the UK and for that purpose acquires a French company that happens to be strong in the UK, then in my definition this still counts as market seeking.

Three lines of literature have investigated FDI using the concept of strategic asset seeking or related concepts. First, the literature on location choice has recognized the technological capabilities of the host location as an important factor attracting some – but not all – types of foreign investors. The arguments in this literature make reference to capability augmenting type arguments, though they do not clearly separate whether such technology is sought to enhance the competiveness of the parent organization, or of the subsidiary (e.g. Chung & Alcacer 2002; Kogut & Chang, 1991). Second, the literature on the internationalization of R&D has long distinguished exploitation and exploration motives of foreign R&D units: some such units aim to apply imported technologies to local markets, whereas other R&D units aim to contribute to the global knowledge pool (Dunning & Narula, 1995; Narula & Zanfei, 2004). The third literature concerns emerging economy MNEs, my main focus.

Emerging Economy MNEs: Case Illustrations

In the recently flourishing literature on emerging economy MNEs, the concept strategic asset seeking or related terms have frequently been used to explain FDI appears to be different from FDI by more traditional MNEs. Specifically, some cases of outward FDI from emerging economies involve the take-over of firms in advanced economies that are more advanced in terms for example of technology, skills and even management capabilities than the investing firm (Cui et al., 2014; Deng, 2009; Li et al., 2012; Rui & Yip, 2008). These acquired assets are strategic in the sense that they strengthen the capabilities of the acquirer not only in the local market, but in its global operations, providing for example advanced technologies or international brand names that strengthen the firm’s competitive position vis-à-vis its competitors back home. The following three cases illustrate this type of strategy.

The Indian Tata Group made a series of acquisition of technologically advanced but financially struggling businesses in the UK, namely Corus Steel, Tetley Tea, and Jaguar Land Rover. These acquisitions do not fit the three traditional motives because their primary aim is not to sell Indian products in Europe, nor do they reduce costs of existing operations or provide access to natural resources. In fact, the acquired firms are barely operationally integrated with older units of the group. These acquisitions were primarily motivated by Tata's ambition to build managerial competences, for example in the management of international acquisition processes and in the management of luxury brands (Bajaj, 2012; Gribben, 2015). Thus, the main objectives underlying Tata's investment relate to building the capabilities of the Tata Group, with a long-term view as to how these capabilities would enhance the group's competitiveness.

Similarly, Geely, a private car manufacturer from Jiangsu province, China, acquired Swedish car maker Volvo and British Manganese Bronze (famous for making London Taxis). The primary motives behind these acquisitions were not related to European markets, efficiency improvements or resources access. Rather, Geely aimed to use the acquired brands and technologies to strengthen its position in China, in the first instance by introducing Volvo as a new premium brand, and in the longer run up by upgrading the technology of Geely's own brands (Shirouzu, 2013; Waldmair, 2013). In 2014, Geely even announced a plan to serve the US market with Volvo cars made in China; whether this will materialize remains to be seen. The main market where Geely aimed to enhance its competitiveness thus was the Chinese market!

As a third example, consider the SGSB group (Meyer, Chng & Zhu, 2014). In 2005, SGSB was a struggling manufacturer of industrial sewing machines realizing that to survive the competition with Japanese and German competitors in China, it needed to upgrade its technology and brand portfolio. With these aims, SGSB acquired a mid-sized German company, Dürkopp-Adler, which was financially struggling. Dürkopp-Adler's brand and technology were highly appreciated by clients in e.g. the automotive industry not only Europe but also in China. However, Dürkopp-Adler had failed to build distribution channels and service networks to serve potential clients in China. Hence, synergy potentials between the two companies were apparent, though not easy to realize. After several ups and downs during the post-acquisition process, SGSB managed to build a strong and profitable position in the Chinese market. In 2013, SGSB (now renamed SG Group) made two further acquisitions leading the industry consolidation and challenging Japanese global leaders.

Following the initial acquisition, all three case firms invested in the acquired operation. However, their contributions were not the types of resources (or 'firm specific advantages') that Western firms typically deploy abroad. Rather, one key contribution of the acquiring firms was financial resources at a time when the target firm was experiencing serious liquidity constraints. A second contribution was the understanding of the emerging economy market context and access to distribution channels and regulatory authorities in these markets. Thus, all three companies (including Tata!) invested in new production facilities in China where the products would be built for the Chinese market. However, the brands were position as European brands and represented by British, Swedish or German executives, which enhanced the brand perception in the eyes of Chinese consumers.

At the outset, all three investors stated that they aimed to enhance their existing operations by upgrading technologies and management practices. However, here is a catch. Such reverse knowledge transfer from the acquired operation in Europe to a parent organization in India or China appears to be difficult to achieve in practice (Meyer, 2014; Narula 2012). Hard evidence on this is scarce as few in-depth case studies have been published (not surprising given that few managers like to talk about their failures). The challenge they face is that the acquiring organization is technologically less advanced than the target firm, and the management practices of the parent may have to change to fully utilize the best practices of the target. Thus, how firms in emerging economies can actually absorb knowledge and capabilities of their acquired businesses remains a challenging question for both management practice and scholarly research!

Interpretation and Outlook

The concept of strategic asset seeking is important to interpret the strategies of emerging economy MNEs. Some of their FDI projects are undertaken primarily to augment the capabilities of the investing firm rather than to exploit its existing capabilities. This augmentation concerns not only technologies and innovation capabilities, but a wide range of managerial capabilities. In this sense, this resource augmentation is broader than that studied by the literature on the internationalization of R&D (Narula & Zanfei, 2004). However, it reinforces the insight of that literature that FDI serves both resource exploitation and augmentation, with the latter dominating in some case.

This insight may be less surprising to strategy scholars than to scholars thinking in terms of Rugman's FSA/CSA framework. Strategy research has long recognized both resource exploitation and resource augmentation (i.e. development or exploration) as motives for firms' strategies (March 1991). Organizations learn through the activities they engage in, some activities aim primarily for short-term exploitation motives while others primarily aim for resource augmentation to enhance competitive advantage in the longer run. FDI creates new activities; the only difference is that these activities are abroad. Hence, for strategy scholars, it is natural to think of FDI projects as combining elements of resource exploitation and resource augmentation (Luo, 2002; Meyer, Wright & Pruthi, 2009; Teece 2014). My reading of Dunning's work suggests that he was very much aware of the exploration and exploitation dimensions of FDI, and therefore saw a need to create a category capturing FDI projects that primarily have exploration motives.

Thus, the category of strategic asset seeking FDI describes an important type of FDI that is not adequately captured by the other three motives. The label strategic asset seeking FDI may not be well chosen; perhaps 'knowledge seeking' (Chung & Alcacer, 2002; Li et al, 2012), asset-augmenting (Narula & Zanfei 2004), or 'resource augmenting' (Meyer et al., 2009) capture the essence of the category better. However, I am not much concerned what to call this category. The important point is that the category exists, and that for some firms it is very important. Hence, to advance our understanding of FDI, we need (1) theoretical frameworks that recognize that FDI project typically combine resource exploitation and resource augmentation, (2) theories that explain why some firms undertake FDI projects with primarily to augment their resources and capabilities, not to create to primarily exploit their existing resources; and (3) assessments of FDI projects that reflect the underlying motives, and hence employ performance indicators that are aligned with the motives.

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Table 1: Comparison of FDI motives

FDI motives	Description	Performance indicators
Market seeking	To sustain or protect existing markets (by circumventing trade barriers), or to exploit or promote new markets, typically in the host country.	• Market share in the host country, • Financial performance of the subsidiary (after controlling for possible transfer pricing).
Efficiency seeking	To enhance economies of scale and scope, logics infrastructure, and risk diversification	• Productivity of the whole organization, • Costs of critical organizational processes.
Natural resource seeking	To secure stable, low-cost, and high quality supply of natural resource such as minerals, oil and gas, or agricultural products	• Costs of inputs (relative to market prices), • Stability of supply.
Strategic asset seeking	To enhance the capabilities of the acquiring firm in view of long-term competitiveness in home and third-country markets.	• Upgrading of technology in parent organization • Organizational change in parent organization • Acquired firms products or brands successfully sold outside host country

Sources: column 1 is based on Cui, Meyer & Hu (2014).

Table 2: Some Definitions of Strategic asset seeking and knowledge seeking

Authors	Empirical Field	Concept	Definition
Dunning 1991	Theoretical analysis	Strategic asset seeking FDI	"to create or gain access to resources and capabilities that complement their existing core competencies" (p. 135)
Kogut & Chang, 1991	Japanese FDI in the USA	Technology Seeking FDI	"the seeking of new technologies resident in the USA" (p.401)
Dunning & Narula 1995	FDI in R&D units (theoretical)	Strategic asset seeking R&D	"R&D activities … aimed at monitoring or acquiring competitive advantages - particularly in the technology and information-intensive sectors- which are complementary to those already possessed by the MNE" (p.42)
Chung & Alcacer, 2002	Inward FDI in the USA	Knowledge seeking FDI	"expand abroad in search of capabilities that are not available in their home countries" (p.1534)
Makino, Lau & Yeh, 2002	Taiwan outward FDI	Asset seeking FDI	"to acquire strategic assets (i.e. technology, marketing and management expertise) available in a host country" (p.404)
Ivarsson & Jonsson, 2003	Inward FDI in Sweden	Asset seeking FDI	"to augment … existing global technological competitive advantages through a feedback of information and by tapping into the knowledge generated by other forms or non-market institutions in host countries" (p.370)
Dunning & Lundan, 2008	Theoretical analysis	Strategic asset seeking FDI	"to promote their long-term strategic objectives-especially that of sustaining or advancing their global competitiveness." (p.72) "to augment the acquiring firm's global portfolio of physical assets and human competences, which they perceive will either sustain or strengthen their ownership-specific advantages *or* weaken those of their competitors" (p.73)
Luo & Tung, 2007	emerging economy outward FDI	Springboard FDI	"to acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints that they face at home." (p.482)
Deng, 2009	Chinese outward FDI	Strategic asset seeking FDI	obtaining and controlling strategic assets "defined as the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm's competitive advantage." (p.75)
Rui & Yip, 2008	Chinese outward FDI	Strategic intent perspective of FDI	"to achieve specific goals, such as acquiring strategic capabilities to offset their competitive weakness and leveraging their unique ownership advantages while making use of institutional incentives and minimizing institutional constraints." (p. 214)
Li, Li & Shapiro, 2012	Chinese outward FDI	Knowledge seeking FDI	"FDI that is geared … to augmenting firm-specific advantages through acquisition or partnering arrangements with local firms" (p. 278)
Cui, Meyer & Hu, 2014	Chinese outward FDI	Strategic asset seeking FDI	"to pursue long-term strategic objectives - especially that of sustaining or advancing global competitiveness" (p.490)