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MARKET-POLITICAL AMBIDEXTERITY AND BUNDLING OF LOCAL RESOURCES AND FOREIGN STRATEGIC ASSETS: A RECIPE FOR COMPETITIVE ADVANTAGE?

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ABSTRACT

Through a longitudinal study of Geely's transformation into a global, privately held Chinese automotive company, we explore the duality of market-political ambidexterity as well as the bundling of local resources with foreign strategic assets. The case study describes the process through which Geely obtains ownership of local resources that complement strategic assets acquired abroad, including the Volvo Car Corporation. We find that access to complementary local resources and the acquisition of foreign strategic assets are closely intertwined and recursive. Our study supports the proposition of the bundling model, which suggests that country-specific advantages are not equally available to all firms. In particular, ownership of local resources in emerging economies hinges on firm-specific aptitudes, including political embeddedness. However, in addition to establishing and maintaining political ties, emerging economy firms have to develop business ties, management skills, and entrepreneurial capabilities in order to leverage strategic foreign assets.

Key words: Bundling model; market-political ambidexterity; emerging economy firm; complementary local resources; political embeddedness; strategic asset seeking

INTRODUCTION

Strategic asset seeking by multinational enterprises from emerging economies (EMNEs), especially those from China, has received a significant amount of attention in the business press and from researchers. Full or partial acquisitions of high-profile Western companies, such as Jaguar Land Rover (acquired by Indian Tata Motors), Weston Foods (by Mexican Bimbo), GE Appliances (by the Chinese Haier Group), and Volvo Car Corporation (by Chinese Geely), make headlines on a regular basis. They evoke curiosity regarding the drivers and strategic intent (Rui and Yip, 2008) of such EMNE undertakings and what it takes to successfully leverage this type of foreign direct investment (FDI). In this paper, we address the latter issue by examining potential antecedents of the successful seeking, acquiring, and leveraging of foreign strategic assets.

To do so, we combine two analytical frameworks: the bundling model (Hennart, 2009, 2012, 2018) and the concept of market-political ambidexterity (Child and Rodrigues, 2005; Li, Peng and Macauley, 2013; Sheng, Zhou and Li, 2011; Zhang and Van den Bulcke, 1996). The bundling model suggests complementarity between firm-specific advantages (FSAs) and country-specific advantages (CSAs). This view was first aired as the 'springboard perspective' (Luo and Tung, 2007; Ramamurti, 2009, 2012; Williamson and Raman, 2011) and further developed and theoretically refined by Hennart (2009, 2012, 2018) as the bundling model. The other complementarity—market-political ambidexterity—submits that in order to successfully leverage their strategic asset seeking, EMNCs not only have to eloquently navigate the political landscape at home and abroad, but they also must possess international management and corporate entrepreneurship skills that are at least on par with their counterpart MNEs from mature economies. In other words, EMNEs have to embrace *both* markets and governments by developing market-political ambidexterity.

By bringing the bundling model and the concept of market-political ambidexterity together, we aim to provide a better understanding of the antecedents of strategic asset seeking and deployment that lead to sustainable competitive advantages for EMNEs. For this purpose, we adopt a process view of how these antecedents evolve by studying Zhejiang Geely Holding Group ('Geely' henceforth)—a privately held Chinese automotive producer. Geely's rise from a position as a local player to a global actor is remarkable, especially in terms of its acquisitions of incumbent western firms, including the Volvo Car Corporation (VCC) in 2010. The Geely case seems particularly well suited for demonstrating how the dualities spanned by the bundling model and the market-political ambidexterity concept may unfold. The case offers insights into how preferential access to local resources evolves and allows for the leveraging of foreign assets. The Geely case is quite distinct in the EMNE setting in terms of the visibility of its management and corporate entrepreneurship skills. In fact, the founder, owner, and chairman of Geely, Li Shufu, has clearly emphasized the possession of management and entrepreneurship skills as key success factors for EMNEs in the global automotive industry. As he bluntly expresses it:

> "The hope of China's auto industry still lies with the private sector. This is a competitive process: First, SOEs [state-owned enterprises] compete with foreign capital, and the SOEs lose. Then foreign capital competes with private [Chinese] enterprises, and the private enterprises win." (Economic Observer, 2009, cited in Andersson (2012, p. 137)).

Li Shufu's demeaning description of state-owned EMNEs is echoed (in more urbane language) by several scholars (Chen and Chen, 2004; Child and Rodrigues, 2005; Li *et al*., 2013; Nolan, 2001) who describe how these firms often are weak when it comes to strategic action and entrepreneurship in competitive markets because of their legacy of institutional dependence or outright suppression of entrepreneurial initiative by

governmental authorities. Hence, China's distinct institutional legacy as well as that of other emerging economies may jeopardize the successful use of acquired foreign strategic assets.

In addition to unveiling these intricacies of managerial competencies and their importance for the effective use of acquired foreign assets, our in-depth case study of Geely may be seen as a response to Sheng *et al.*'s (2011) call for longitudinal studies that supplement their seminal cross-sectional study of the business and political ties of Chinese MNEs. As the authors point out, longitudinal studies are better able to examine how personal and organizational ties evolve and change in the dynamic and transitional environments of emerging economies.

This paper proceeds as follows. In the next section, we review the literature on the theoretical perspectives and core concepts of our study. We first account for the bundling model and how the model encompasses a reinterpretation of the OLI framework. Thereafter, we review the various components of market-political ambidexterity, including political ties or 'embeddedness,' management skills, and corporate entrepreneurship, where the latter can be subdivided into innovation, venturing, and strategic renewal. The next section explains our case methodology, which is followed by the empirical case on Geely. In that section, we introduce Geely, and outline its origins and entry into the Chinese and international automotive industry. We also account for the company's acquisition of foreign strategic assets (including the Volvo Car Corporation), and its deployment, leveraging, and development of those assets in its home market and in mature markets. Furthermore, we highlight indications of Geely's market-political ambidexterity. In the subsequent section, we analyze and discuss the main findings of the case study in relation to our research question: What are the antecedents of strategic asset seeking and deployment that lead to sustainable competitive advantages for EMNEs? Thereafter, we formulate a set of propositions before presenting our conclusions.

BACKGROUND AND DEVELOPMENT OF ANALYTICAL FRAMEWORK

As a first step toward answering our research question regarding the antecedents of strategic asset seeking and deployment that lead to sustainable competitive advantages for EMNEs, we account for the four key constructs that define market-political ambidexterity and the bundling model. Market-political ambidexterity refers to EMNEs' maneuverability in political environments as well as competitive market settings, which we label political maneuverability and market maneuverability, respectively. The essence of the bundling model is the duality of access to local resources in the home country and the acquisition of strategic assets in mature market economies.

Political maneuverability

Governments in emerging economies often provide overt and covert support to domestic firms as they attempt to internationalize (Gaur, Kumar, and Sarathy, 2011; Luo, Xue, and Han, 2010; Ren, Liang, and Zheng, 2012), but the role of the state is more salient in the home market. Bhattacharya and Michael (2008) and Sauvant, Maschek, and McAllister (2009) feature the notion of homegrown, national champions as companies in emerging economies that are favored by federal or local governments. Governments can select such local firms with the intention of nurturing them as leaders in certain industries believed to be of strategic importance to the country. As such, national champions are intended to bolster the country against dominant multinational enterprises from advanced economies. However, the "national champion" qualification is not reserved for SOEs, as any company with strong links to the political elite may be eligible for this status (Alvstam and Ivarsson, 2014). The home-market advantage held by emerging economy firms is therefore not necessarily a matter of state ownership. It is

instead associated with the subtler concept of "political embeddedness" in the firm-government context (Okhmatovskiy, 2010; Sun, Mellahi, and Thun, 2010). In its wider understanding political embeddedness refers to ties between firms and governments for mutual influence and benefits. Hence, the concept is broadly defined as "bureaucratic, instrumental, or affective ties to the state and its actors" (Michelson, 2007, p. 353), and includes formal, informal, individual, and organizational ties to the state. A similar definition is provided by Sun *et al.* (2010, p. 1163): "a portfolio of a firm's individual and institutional ties to the constituent parts of the state." This definition implies that political embeddedness resides at the interpersonal level in managerial ties to political actors and at the inter-organizational level in organizational ties to political institutions, including national and local government bodies.

The financial benefits of political embeddedness in emerging markets have been estimated to be substantial in a number of empirical studies of both local (Chen, Li, and Fan, 2017; Mahmood, Chung, and Mitchell, 2017; Peng and Luo, 2000; Michelson, 2007) and foreign firms (Henisz, 2000; Luo, 2001/2007; Zhao, Anand, and Mitchell, 2005). On the flip side, a firm's political embeddedness may be harmful if the political landscape shifts dramatically and the political elites lose power (Fisman, 2001; Sun *et al.*, 2010). However, less seems to be known about the financial costs of political embeddedness in a stable political landscape. As Okhmatovskiy (2010, p. 1022) points out: "if we look at ties that provide the government with opportunities to exercise some control over the firm, it appears that such ties do not necessarily have positive effects on performance. In fact, many economists describe state control as a source of inefficiencies." Not surprisingly, governments tend to pursue their own political or socio-economic goals, and may use their power to divert firms' resources away from what corporate objectives would otherwise prescribe (Okhmatovskyi, 2010; Shleifer and Vishny, 1998). We can also associate political embeddedness with costs in terms of the time and effort managers spend on political lobbying (Choi, Jia, and Lu, 2015). The cultivation of good relationships with politicians and government officials requires company representatives to spend a considerable amount of time on meetings and other face-to-face interactions (Child, 1994; Peng and Lou, 2000), which may distract them from day-to-day operations, strategy planning, and execution. Furthermore, political embeddedness may result in adversarial treatment in foreign markets due to geopolitical tensions (Fan, Wong, and Zhang, 2007; Wu, Li, and Li, 2013) or accusations of price dumping as a result of home-country subsidies, although this aspect is somewhat more speculative. Last but not least, EMNEs may achieve political embeddedness and maneuverability at the expense of their ability to successfully navigate competitive market constellations, such as those dominating most private industries in mature economies. As we discuss in the next sub-section, complementarity rather than mutual exclusivity is the hallmark of market-political ambidexterity.

Market maneuverability

As emerging economies increasingly liberalize domestic industries, incumbent firms need managers and employees at lower levels who possess the skills and attitudes needed for survival and success in an increasingly competitive and dynamic landscape. As governments continue to play important roles in most industries (Hennart, 2018; Ramamurti and Hillemann, 2018), it is not a question of replacing political maneuverability with market maneuverability but rather one of supplementing political ties and skills with market ties (Sheng *et al.*, 2011), entrepreneurship, and an ability to manage organizations according to market needs. However, the process of extending ties and adopting the skills needed to devise and execute more market-oriented strategies may be hampered by organizational inertia stemming from the legacy of institutional path dependence: old routines, customs, attitudes, and cognitions can slow or obstruct the transition towards market maneuverability.

Without this maneuverability, EMNEs may struggle to manage acquired assets, preserve the equity of acquired brands (Child and Rodrigues, 2005), and develop relevant strategic actions (Lewin, Long, and Carroll, 1999). Madhok and Keyhani (2012) even talk about a "liability of emergingness"—a disadvantage that burdens the internationalization of EMNEs along with the liability of foreignness.

As the phenomenon in focus here is EMNEs' acquisition of foreign assets, we are particularly interested in the entrepreneurial capabilities needed to spot suitable targets in mature corporate-control markets and to see opportunities for leveraging the assets that are possessed by those targets. These capabilities comply with the general definition of international entrepreneurship found in Zahra and George (2002, p. 261): "the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage." In order to better operationalize international entrepreneurship, we also adopt the sub-division of corporate entrepreneurship into three types of processes—innovation, venturing, and strategic renewal—originally introduced by Guth and Ginsberg (1990) and subsequently used by Zahra (1996) and Yiu, Lau, and Bruton (2007).

The shift towards more international entrepreneurship among EMNEs has long been underway, at least in China. In their 2005 article, Child and Rodrigues noted that "Chinese entrepreneurs who have successfully steered their companies into internationalization appear to have found ways of accommodating to the institutional embeddedness that remains in China. They have not so much 'escaped' domestic institutional restrictions as to have found ways of co-opting political support that has given them the freedom to pursue internationalization strategies of their own choosing" (p. 405). Nine years earlier, Zhang and Van den Bulcke (1996) concluded that, in order to promote outward FDI, the Chinese government had widened the scope for entrepreneurial initiative and that Chinese EMNEs were in the process of balancing "the influence of the governmental bureaucratic system and the development of a real entrepreneurial logic" (p. 161). Efforts by Chinese governmental authorities to remove leaders of state-owned enterprises who demonstrate entrepreneurial initiative is probably a phenomenon of the past (Nolan, 2001).

Another important aspect of market maneuverability is the possession of management skills that streamline the organization in accordance with the market's competition requirements and that allow for the implementation of entrepreneurial initiatives. In this regard, we center on the management skills that are particularly important in relation to the leveraging of acquired foreign assets, especially in the post-acquisition integration process. Although researchers focused on EMNEs seem to pay more attention to entrepreneurship than to management skills, the two are not easily distinguished and there is a great deal of overlap in the literature. For example, Zhang and Van den Bulcke (1996) study the entrepreneurial and management skills of Chinese MNEs simultaneously.

The bundling model: Access to local resources

The connection between CSAs and FSAs is focal in the "bundling model." The model was first formulated in general terms (Hennart, 2009) and, later, in the context of emerging economy firms (Hennart, 2012, 2018). The term "bundling" refers to the bundling of intangibles (e.g., technologies and brands) with local resources (e.g., land, capital, labor, supplier networks, and distribution channels) in order to ensure profitable sales of goods or services in the local market (Hennart, 2012). Hennart argues that intangible-seeking FDI by emerging economy firms fit awkwardly into the OLI model because of the model's assumptions that all foreign investments require the investing firm to have ownership advantages and that all CSAs are freely accessible. Like Ramamurti (2009), Hennart further argues that most local resources are not freely available to all firms, which creates space for

emerging economy firms. Control of local resources, such as access to local customers, land, raw materials, low-cost capital, and labor, by emerging economy firms can provide them with the profits needed to finance acquisitions of intangible assets at home and abroad. In turn, the local resources become complementary to the acquired intangible assets. Hence, the bundling model does not privilege intangibles over complementary local resources. Instead, it treats them in a fully parallel fashion.

Foreign strategic assets

Our interpretation of "strategic assets" originates from Dunning's suggestion that motives for FDI fall into several categories: market, resource, efficiency, and strategic asset seeking (Dunning, 1993; Dunning and Lundan, 2008). In this categorization system, the strategic-asset motive pertains to FDI that intends to add assets to the acquiring firms' existing portfolios—assets that "they perceive will either sustain or strengthen their overall competitive position, or weaken that of their competitors" (Dunning, 1993 p. 60). In a similar vein, Makino, Lau, and Yeh (2002) and Wesson (1993) distinguish between asset-exploiting and asset-augmenting FDI, where the latter focuses on gaining access to new technologies and organizational capabilities. In terms of overseas R&D investments, Dunning and Narula (1996) develop dichotomies of asset-exploiting and asset-seeking investments. In addition, Kuemmerle (1999) contrasts home-base-exploiting R&D activities with home-base-augmenting R&D activities, and points to the growing importance of augmenting existing assets by absorbing and acquiring technological spillovers arising from agglomerative effects in specific sectors or specific organizations in host countries.

In line with Dunning's (1993) definition of strategic asset seeking as including assets acquired with the purpose of weakening the competitive position of other incumbent firms, we propose that assets acquired for future use (such as R&D subsidiaries), and assets acquired or leased for use in other foreign markets or in the home market should be labeled "strategic." One example would be the undertaking of FDI in a competitor's home market aimed at retaliating against that competitor's entry into the MNE's own, lucrative home market (Graham, 1974; Knickerbocker, 1973). Other examples of strategic asset seeking relevant to our EMNE perspective are acquisitions (or leasing/licensing) of technologies or brands in foreign markets for use in the home market (see also Meyer, 2015).

In light of this brief discussion, we define "foreign strategic assets" as know-how, technologies, brands, equipment, buildings, and sites acquired or leased abroad, or in businesses and territories other than where those assets are currently deployed and exploited, with the aim of creating or extending advantages in the future.

Analytical framework

As indicated above, the leveraging of foreign strategic assets acquired by EMNEs depends on access to resources at home. This access, in turn, relies on the political maneuverability of the EMNE. However, the initial search for and spotting of foreign strategic assets requires international entrepreneurship, while the ensuing management of the assets requires skills of its own. In this way, the four constructs are interwoven and, in conjunction, make up a set of antecedents to EMNEs' development of competitive parity or even an advantage relative to MNEs from mature economies. The four constructs and their mutual interdependencies constitute a framework for analyzing Geely and its efforts to gain a competitive advantage in the global automotive industry.

*** Insert Figure 1 about here ***

Figure 1 summarizes this analytical framework. We will revisit this framework after the case analysis, and investigate whether the study of Geely gives rise to amendments or extensions in support of possible theory development.

METHODOLOGY

The primary case-study data has been compiled during the period from the acquisition of VCC in 2010 up to the beginning of 2017, i.e. we have used a longitudinal, qualitative approach. The primary data have largely been generated through personal communication with senior managers during frequent visits to Volvo Cars Corporation's corporate head office and to the joint Geely-Volvo R&D center, China Euro Vehicle Technology (CEVT), located in Gothenburg, Sweden. Data has also been gathered during visits to Volvo Cars' units in China, including its Chinese head office in Shanghai (Jiading and Pudong), its car assembly plants in Chengdu (Sichuan province) and Daqing (Heilongjiang province) and the engine factory in Zhangjiakou (Hebei province). We also conducted interviews at one of Volvo Cars' minority owners, the State Asset Operations Company in Daqing. In addition, data have been collected from key actors in Geely during visits at their Headquarters in Hangzhou as well as at assembly plants in Chengdu and Cixi between 2011 and 2014. All in all information has been collected from 39 informants during a time period spanning from September 2011 to April 2016. A list of the respondents is found in Appendix A. All information has been collected through personal face-to-face meetings with Swedish and English as the communication languages. Communicating in English can often be problematic in China, but caused few problems during our visits and conversation with local managers, where the existing language barriers could be solved collectively without help from professional interpreters.

Given the large range of information needed to comprehend the business development by Geely and VCC, a structured questionnaire has not been used. Instead data have been incrementally generated as part of our general interest to understand the development of the Geely-VCC relationship. During our visits and interviews we both asked specific questions as well as collected information based on informant's general accounts related to their professional expertise. Throughout our visits and interviews we took notes and gradually built a substantial amount of primary field data, sometimes complemented through follow-up correspondence. Other company data were gathered from secondary sources, including company documents from both VCC and Geely. The substantial number of informants has made possible a triangulation of primary data, where we generally rely on information provided by two or more persons, often with different and complementary management responsibilities ranging from production managers at the assembly plants up to top-level executives, including Li Shufu, CEO of Geely Automotive; Gang Wei, Deputy CEO of CEVT; and Hans-Olov Olsson, Vice Chairman, VCC. Parts of the information originally provided by the respondents have later been confirmed through officially published company reports and by the business press. We will therefore refer to personal company informants mainly in cases where data is not publicly available.

For the historical background and discussion of Geely's origin and early development we mainly rely on secondary sources, where especially the extensive study of Chinas' auto industry by Anderson (2012) has been very useful. We selected and analyzed the large amount of data through a chronological logic, and thematically how it contributed to build and support our conceptual framework.

The data used to build our case was originally collected as part of a more general interest to understand the dynamics behind Geely's acquisition of VCC and the subsequent integration of their operations. The institutional and political context in China has naturally been a key to understanding the evolving relationship between these two companies, along with such factors as the development of the global auto market and new

technology demands. In the current analysis we particularly make use of empirical data that contribute to an increased understanding of how Geely has been able to manage the advantages and costs of government support in a manner that have contributed to strengthen the company's market position both in China and elsewhere.

Rather than inventing new theory through this case, we aim to refine and contextualize existing theories about EMNEs. We therefore use the Geely case to show how some of the constructs of these theories interact in practice and how those interactions may provide a more dynamic and holistic framework. Consequently, our contribution is not developed strictly according to the principles of grounded theory (Strauss and Corbin, 1990). Rather, it encompasses elements of an inductive approach, as we have followed the firm for a number of years through a dialogue with several of its senior managers. This longitudinal perspective is important, as it enables us to follow the evolution of the firm's strategy and operations over time. The opportunity to follow changes over time is one advantage of the case-study method (Pettigrew, 1990). Simultaneously, our study is also to some extent influenced by deductive methodology. From the outset, we were inspired by the bundling model and its emerging economy contextualization. This movement from theory to empirics, and the use of theory to operationalize concepts, is essentially deduction.

In sum, our study of the Geely-Volvo case is predominantly inductive with a deductive outset in the bundling model and the concept of market-political ambidexterity. Our use of the findings from the case is guided by the bundling model, but - informed by the case study – we aim to extend and make the model more dynamic. The case information influences and enriches our understanding of the bundling model; in other words, our preconceptions have been affected and modified by the empirical data. The value of initially defining a theoretical construct and a set of variables, and then collecting data in order to explore the relations between the construct and the empirical data was stressed in Eisenhardt's (1989) and Mintzberg's (1979) seminal contributions to case-study methodology. While Eisenhardt (1989) described the importance of undertaking theory-building research "…as close as possible to the ideal of no theory under consideration and no hypothesis to test," she also acknowledged that "…it is impossible to achieve this ideal of a clean theoretical slate" (Eisenhardt, 1989, p. 536).

The Geely case study is structured into two main parts: We first account for Geely's origin, early growth and first stage of development ('Stage 1'), where we describe how the founder and chairman of Geely, Li Shufu, obtained political support to get access to and develop local resources in terms of production and sales of cars in China with export to other emerging markets and initial strategic asset seeking resulting in some minor foreign acquisitions. Thereafter we describe Geely's second stage of development ('Stage 2') in which political support not least from the national government made possible the large-scale acquisition in 2010 of the Volvo Car Corporation from the Ford Motor Company. In this second stage, we describe the further development of the assets acquired abroad and look into Geely's recent and forthcoming investments in car plants in China as well as in advanced markets. For a strict chronological presentation and overview of Geely's development, see Appendix B.

THE GEELY CASE

Stage 1: Geely's origin and early growth at home

Establishing political embeddedness at local, regional and national levels

Geely was set up as a private company in 1986 by the entrepreneur Mr. Li Shufu, focused on the production of refrigerators for the Chinese market. In 1994, the production of motorcycle parts and step-through scooters began and soon the company became one of China's largest motorcycle producers with exports to over 20

countries. Further plans to begin car production were initially hindered by the Chinese government that during the mid-90s supported the large, state-owned car producers and their joint-venture partners. However, in 1996, Li Shufu was able to buy shares in a manufacturer of small vans and microbuses located in Deyang, just outside Chengdu in the Sichuan province. The deal also included a license to produce passenger cars and in 1998 the first Geely car, a Haoqing SRV, rolled off the assembly line in a new plant in Linhai, Taizhou, Li Shufu's hometown in Zhejiang-province (Anderson, 2012).

Geely's entry into the Chinese car manufacturing industry and its subsequent growth and international expansion were made possible through political support, initially from local and regional levels, later also from the national level. In the mid-1990s, Zheijang's provincial government was instrumental in helping Geely obtain licenses from the Ministry of Machine Building to produce passenger cars and to set up production in Zheijang province, a unique situation given that passenger car production during this period were only permitted to SOEs and their JV partners. At the end of 1990s, Geely received an important capital injection from the local government in Taizhou, Li Shufu's home town. The local government also sold public land to Geely, which subsequently was sold to real-estate developers at market prices, thereby contributing around RMB 1 billion to Geely's balance sheet. In addition, Geely was granted tax breaks (worth around RMB 80 million annually) by the local government.

In 2002, Li Shufu appointed a former accountant from the Zheijang Provincial Local Tax Bureau as president of Geely. The appointment presumably helped Geely in establishing important contacts with banks at the provincial level, eventually resulting in a loan of RMB 100 million. Also, an agreement with China Everbright Bank, one of the largest state-owned banks in China, enabled Geely to expand its car production and thereby become one of the major privately owned car manufacturers in China. It is worth noting that during this time Li Shufu also became a member of the Communist Party of China (CPC), and in 2003 he became a deputy to the People's Congress in Taizhou and a member of CPPCC, the Chinese People's Political Consultative Conference (Anderson, 2012).

At this time, Geely had also caught the national government's interest. As an indication of this interest the government secured Geely with ample capital for its expansion during the early 2000s. In 2004 Li Shufu was able to buy a shell company in Hong Kong and in 2005 the Chinese government approved Geely Holding Group's application to be listed on the Hong Kong Stock Exchange through an Initial Public Offering (IPO). The IPO generated HKD 2 billion in capital in 2007 and was an important step toward being recognized by the larger investment banks. In 2009, Goldman Sachs invested USD 334 million in Geely. Another indication of positive government attention appeared in 2009 when China's acting Prime Minister Wen Jiabao visited one of Geely's factories and was cited in the press for promising continued support to Geely's industrial development. Also, the PM encouraged Li Shufu to send a special report to the State Council. The listing on the Hong Kong Stock Exchange and the preceding incorporation of Geely Holding in the Cayman Islands in 1990 both required permission from the national government. Without these permissions, it would have been impossible to finance Geely's fast expansion.

Access to, and development of, local resources

Even if government support was instrumental in Geely's early development, the growth of the company was only partly based on privileged access to existing local resources in China. Geely was able to gradually grow its car production through entrepreneurial and risk-taking investments by the owner, and even though it was a small and newly established car manufacturer, in 2001 Geely became, as the first private Chinese auto producer, officially recognized and included in China's Automobile Manufacturing Index. In the years following the start of car

production in 1998 Geely predominantly expanded its production capacity and market position in China (see Figure 2).

*** Insert Figure 2 about here ***

With its head office and a major R&D center in Hangzhou plus an assembly plant in Linhai (in Zhejiang province in east China), Geely opened a number of manufacturing plants throughout China over the next ten years. Between 1999 and 2004 new integrated assembly plants opened in Shanghai, as well as in Ningbo and Luqiao in the Zhejiang province. In order to benefit from lower production cost, proximity to new markets, and additional financial and other resources available in other, less developed provinces, additional production facilities were opened in 2007 and 2008 in Xiangtan (Hunan province), Chengdu (Sichuan province), Lanzhou (Gansu province), and Jinan (Shandong province).

Geely's early growth was based on a clear strategy of focusing on very simple cars in the lowest price segments (Anderson, 2002). The company targeted first-time buyers in the growing Chinese middle class: especially those living in relatively peripheral cities and in the countryside. Through this segmentation strategy, Geely avoided head-on competition from the larger SOEs and their international JVs. As Geely (like other Chinese car manufacturers) was weak in terms of design capabilities, another strategy was to copy designs from existing car models. Later, in 2010, a new plant was also built in Cixi, close to Geely's other existing car plants in the Zhejiang province. Geely also built a large supply chain with several hundred external and in-house suppliers in China, as well as nationwide sales, distribution, and after sales network, which by 2005 included almost 500 exclusive Geely dealers and some 600 service centers. Geely's car sales grew rapidly from only 200 vehicles in 1998 to 130,000 in 2005 and over 300,000 in 2009, see Table I.

*** Insert Table I about here ***

Thereafter Geely continued to increase production to some 400-500,000 units per year 2010-2015, and ultimately reached an all-time high figure in 2017 of over 1.2 million vehicles. Today, Geely is the only major Chinese car company without formal ties to the state and one of China's major national car producers with around 42,000 employees and a market share in China of around 5% (2017). The product portfolio consists of some 30 models ranging from small C-class cars to large SUVs (Sport Utility Vehicles), distributed through some 700 dealers and 20 sales agents in China (Geely, Annual reports).

Exports and CKD assembly in emerging markets

As seen above, the initial growth of Geely's automotive business was in the domestic market, and Geely is still significantly oriented towards the home market. However, the company started to internationalize in 2003 by using China as an export base of completely built up vehicles, and in 2017 Geely cars were sold in some 20 countries, representing around 1% of total sales (see Table I, above). The export markets are found in emerging or developing countries: in particular Belarus and Sri Lanka which together accounted for almost half of Geely's export sales in 2017, but also Iran, Argentina, and Sudan. Geely also started to export parts for car assembly in various countries, mainly through JVs or Completely Knocked Down (CKD) contract assembly with local partners. Starting in 2007 in Russia, Ukraine, and Indonesia, local assembly plants are still found in developing countries, including in Africa (Egypt, Ethiopia), Latin America (Uruguay), Asia (Sri Lanka, Indonesia), and Eastern Europe (Russia, the Ukraine, Belarus).

Minor strategic assets acquired abroad

In order to build a stronger position in China, Geely also made a few minor foreign acquisitions of strategic assets such as brand names, technological capabilities and production resources during the mid-2000s. A first acquisition took place in 2006 when Geely bought 23 % of Manganese Bronze Holding in Coventry, U.K., which produced the black London taxis. Together, they formed a joint venture in China, and set up car manufacturing in Shanghai for the Chinese market. More recently, Geely also started to export bodies, chassis and components for assembly by the local JV partner in the U.K., and in 2013, Geely bought the remaining shares and became the sole owner, with a new assembly opened in Coventry in 2017 (Bloomberg, 2017). The acquisition of Manganese Bronze mainly provided Geely with an international brand name, rather than new technology.

A second foreign acquisition occurred in 2009 when Geely acquired Drivetrain Systems International (DSI) from Australia, a global producer of advanced automatic transmissions that had filed for bankruptcy. This acquisition provided access to modern drive-line technology that Geely used to open three new transmission plants in China – one at its car-assembly plant in Xiangtan (Hunan), one in Jining (Shandong), and one in Chongqing. This acquisition also provided access to new technology crucial for building up Geely's own in-house transmission capability that in 2013 resulted in the launch of its own advanced six-speed gearboxes, making Geely the only domestic producer in China of advanced gearboxes (China.org, 2010). In 2014, DSI's manufacturing operations in Australia was closed.

Stage 2: Major expansion in advanced economies

Political embeddedness and acquisition of major strategic assets abroad

After establishing Geely as a new and rapidly growing private Chinese car producer over the first 15 years, further internationalization was also supported by the local, regional, and national governments in China. This was especially clear in relation to Geely Holdings' spectacular acquisition of Volvo Car Corporation (VCC) from Ford Motor Company (USA) in 2010. VCC was originally established in Gothenburg, Sweden in 1926, but acquired by Ford in 1999 for 6 billion USD to become part of its premium division together with Aston Martin, Jaguar, and Land Rover. VCC was a globally recognized producer of safe, high-quality cars, including hatchbacks, sedans, and SUVs, but in a global perspective, a small-scale producer with annual production of approximately 400,000 units and a total workforce of approximately 20,000 employees. The company's global market share was approximately 1 %, with Sweden, the U.S., the U.K., and other European countries representing the majority of sales. For this deal, amounting to 1.8 billion USD, Geely's owner Li Shufu initially tried to attract investors within the Chinese auto industry to raise capital for the acquisition of VCC, but this did not succeed (Anderson 2012, pp. 146-147). Instead, the acquisition of Volvo was made possible through a consortium of three investors, with Geely as the majority owner (controlling 51 % of the shares) and two local governments as minority owners, where the State Asset Operations Company in Daqing (Heilongjiang province) took a 37 % share, and Jia'erwo Investment Co. in the city of Jiading, Shanghai, took 12 %. Again, personal relations with local authorities was important, especially in the case of Daqing, where *"a very long friendship between Li Shufu and local decision makers and party members was supportive for the substantial investment"* (Personal communication Administrative officer A and B, Daqing State Asset Operation Co., April 2015). The national Chinese government also supported Geely in acquiring Volvo. First, it selected and approved Geely, rather than such SOEs as Changan and Dongfeng, or private car producers like Chery, as the sole Chinese bidder for Volvo in 2009 (Reuters, 2009). Second, Geely was provided with a state bank loan of around USD 100

million to finance the acquisition. Political support has continued to be important for Geely's further expansion after the acquisition. For example, in 2011, Geely received national subsidies valued at USD 140 million, equivalent to half of the company's net profit and far more than what any other "private" firm received (The Economist, 2013). This support was later reinforced when the China Development Bank provided a favorable loan to finance VCC's new business plan in 2012, with the company itself as collateral (Reuters, 2012). China's new policy for its auto industry also contributed to Geely's growth. For example, in 2013 Geely (including VCC) was included on the list of suppliers of prioritized government cars, while several foreign car producers were left off the list (Wall Street Journal, 2013). The same year, China introduced a new 'anti-monopoly' policy that effectively increased costs for foreign auto manufacturers in China in terms of, for example, spare-parts and dealer networks (Bloomberg, 2014). Geely was also selected as one of approximately 10 prioritized car manufacturers when the government attempted to squeeze large foreign and small domestic car manufacturers in order to consolidate the Chinese auto industry. Another important market signal was given when Geely was selected as the first Chinese brand to be the official car supplier for the Asia-Pacific Economic Cooperation (APEC) meeting in Beijing in 2014 (China Daily, 2014).

Extended access to, and development of, local resources abroad

After the acquisition, Geely made substantial investments to build a new VCC organization in China. At the time of Geely's acquisition in 2010, VCC's operations were largely concentrated in Sweden, where the company's head office, R&D, and main car production remained at its original home base in Gothenburg, while engine production and body stamping was carried out in the cities of Skövde and Olofström, respectively. Moreover, VCC had a manufacturing plant in Ghent, Belgium, established in 1965, which was mainly used for smaller car models. It also had a small assembly plant in Malaysia for CKD vehicles that had been established in 1967. Prior to Geely's acquisition, Volvo had only a minor presence in China, mainly through the low-volume production (approximately 10,000 per year) through Ford's joint venture with Changan/Mazda in Chongqing. In this regard, its presence in China was highly dependent on Ford with regard to sourcing, production, marketing, and sales. Overall, "in the Ford era, VCC's own R&D and sourcing capacity was reduced and the company became highly dependent on Ford's technologies, including vehicle platforms and engines" (Personal communication: Vice President Engineering and R&D, VCC Jiading, 2011).

Geely's investments in a new VCC organization in China has to a large extent have been made in order to find a balance between the requirements from local, regional, and national governments on the one side and corporate/entrepreneurial needs on the other side. At the same time, the investments in new production capacity in China aim to strengthen the market position for both Geely and Volvo. For VCC "these investments are part of the ambition to double its global sales to 800,000 units by 2020, of which 200,000 units are to be sold in China alone" (Personal communication Vice Chairman, VCC, Gothenburg, Oct., 2014). Prior to the acquisition, VCC was highly dependent on its home region, with around 60 % of total sales taking place in Europe (almost 15% in Sweden) during the last decade (Table II).

*** Insert Table II about here ***

The U.S. has traditionally been VCC's largest single market representing more than 25 % of VCC's global sales in 2006. However, U.S. sales decreased dramatically, such that the U.S. only accounted for 12 % of VCC's global sales by 2014, with a slight increase to 16 % in 2017. At the same time, VCC has increased its sales in China from 31,000 units at the time of Geely's acquisition to over 100 000 units in 2017, contributing to an all-

time high of over 571,000 Volvo cars sold worldwide. This also meant that by 2017 China had become Volvo's largest single market with 20 % of total sales. At the same time, VCC still has the large majority of its sales in markets outside China, especially in Europe (including Sweden) which accounted for half of VCCs' total sales in 2017.

Further development of strategic assets acquired abroad

As indicated earlier, Geely had limited international experience prior to the acquisition of VCC in 2010. The experience consisted of sales in other emerging markets, starting only in 2003 through exports, local JVs, and non-equity arrangements for local CKD assembly, and - a few years later - some minor JVs and acquisitions of technology in advanced markets. This can be seen as valuable learning, however, not very extensive and over a relatively short period of time. Furthermore, Geely's subsequent internationalization was mainly based on exploration and development rather than exploitation of the acquired assets. Perhaps more interestingly, however, is the significant new strategic resources Geely have built abroad. These foreign investments began already in 2010 when Geely acquired VCC, and have mainly been made at Volvo's home base in Gothenburg, Sweden (amounting to around USD 11 billion at the time of writing). The main objective of these investments is "to develop new product and process technology for both Geely and Volvo and for exploitation both in China and around the globe" (Personal communication: Deputy CEO, CEVT, Gothenburg, Jan. 2015). First, capital investments by Geely have made it possible for Volvo to develop a new in-house engine technology to be used both by Volvo and Geely. This includes a new Drive-E engine family, based on Volvo Engine Architecture (VEA), in which three or four cylinders generate the same capacity as six-to-eight cylinders normally do.

Second, the investment has also made it possible for VCC to develop a new scalable product architecture (SPA) – "a modular system with greater capacity than previous "platform" principles—making the development and production of a large number of car platforms and vehicle models possible through common modules and system interfaces. The SPA is exclusively used by Volvo, and covers all future larger sedan and SUV models" (Personal communication, Chief Engineer, Vehicle Architecture, VCC Gothenburg, Sep 2011). Its use began in 2014 with the launch of the new XC90, manufactured in VCC's main assembly plant in Gothenburg.

A third type of new product development, aimed at both Volvo and Geely, takes place at China Euro Vehicle Technology (CEVT), the new joint R&D center in Gothenburg, Sweden. This center opened in 2013 in Lindholmen Science Park, close to VCC's HQ and main manufacturing operations, and focuses on product development for smaller cars ("C-class") introduced in 2017. These cars are based on the newly developed compact modular architecture (CMA) that can be used to generate new platforms and models in the same manner as SPA, but both for Volvo and for Geely. The basic principle is to "share technologies when suitable, while generating specific solutions for each brand that combine economies of scale and synergies" (Personal communication: Deputy CEO, CEVT, Gothenburg, April, 2016). This is carried out by using identical interfaces between technologies on three levels. It entails unique components for each brand with low-cost and premium versions (e.g., rear axles), shared components with add-on possibilities for premium models (e.g., seats), and common components and systems for both brands (e.g., electrical systems). For Geely, this joint R&D center brings about technological capabilities and enable the introduction of new car models with significantly improved quality and performance. Hence, CEVT is no longer solely a development center. It "has become increasingly responsible for concept development, product planning, sourcing, and production planning for new cars" (Personal communication: Deputy CEO, CEVT, Gothenburg, April 2106). This growth and increased responsibility are demonstrated by the fact that Geely placed an order for over ten new complete car models from CEVT (including a small SUV) in mid-2015, and more notably in 2016 CEVT launched a new car brand:

Lync & Co., built on Volvo's and Geely's common car architecture (CMA) and will also contain a range of VCC technology, including the new engine family. Lync& Co was first introduced in China in 2017, and produced by VCC in Geely's new assembly plant in Luquio, China, where all Volvo's new V40-models will be built. By early 2017 a new car architecture was also introduced to build a range of large Geely and Lynx models, as a complement to the two existing architectures: the SPA for large VCC models, and the CMA, for smaller Geely, Lynx and VCC models (Ny Teknik, 2017).

CEVT's achievements in the development of new strategic recourses for the Geely group also include a new electric technology that will be used by both VCC and Geely in their forthcoming electric cars. This is part of Geely's strategy to have up to 90% of new energy vehicles in their total sales by 2020 (Bloomberg 2015). In line with this ambition, Geely also acquired the U.K.-based electric-vehicle start-up company Emerald Automotive in 2014, giving access to two prototypes of electric delivery vans developed by Emerald, and which now constitute part of Geely's introduction of electric taxis to the Chinese and international market. More recently Geely has also established partnerships with two Chinese companies, Kandi Technologies Group and Ocean Electric Vehicle Technology, for the development and production of electric cars. Geely's acquisition of electrical vehicle technology is a clear response to the Chinese government's national plan to reduce car emissions by introducing more energy-efficient vehicles and encouraging the use of alternative energy.

By 2017, CEVT employed around 2,000 engineers in Gothenburg including some 800 consultants. This gives Geely access to "technological resources and capabilities found in one of Europe's largest and most dynamic automotive clusters" (Personal communication Senior Vice President, Quality, CEVT Gothenburg, April 2016). It provides Geely with key technologies for developing cars - for the domestic as well as international markets - and contributes to the fulfillment of Geely's ambition to become a key Chinese automotive company and the leading exporter of cars from China. Geely also expands into the larger and more demanding markets in Europe and North America. This is illustrated by the fact that VCC, as the first established car brand in China, started to export to U.S. from its Chengdu plant in mid-2015, "a step closely followed by all other main foreign assemblers who have so far been reluctant to export from China to the U.S. given a large perceived risk of customer concerns" (Personal communication Industrial Engineering Manager, VCC Chengdu, April, 2015). In early 2018, VCC also opened a new-built manufacturing plant in the U.S., located in Charleston, South Carolina, with a production capacity of 100,000 cars annually, initially focusing on the new Volvo sedan 60 model, designed in Gothenburg, Sweden. Geely's optimism about entering the strategically important U.S. and European markets is also nurtured by its plans to introduce a small crossover utility vehicle based on the CMA and engine technologies that Geely has developed with VCC at the R&D center in Gothenburg. In 2019 the plan is to introduce Lynk & Co in Europe and the U.S. (Carscoops, 2017). Geely plans to position itself as a producer of affordable, high-tech cars by exporting an alternative-fuel version to some European markets (e.g., Spain, Portugal, Italy, the U.K., and Eastern Europe) before trying to introduce more mainstream gasoline-fueled cars to Europe and, eventually, to the U.S. There are even rumors that Geely and VCC are discussing setting up a joint assembly plant in the U.S. (Reuters, 2015).

Access to resources localized abroad

Through its investments in VCC's home base in Sweden, Geely has also "gained access to resources and capabilities in one of Europe's largest automotive clusters, with a regional concentration of many specialized institutions, suppliers, and consultancy firms" (Personal communication, Deputy CEO, CEVT Gothenburg, April 2016). After the 2011 closure of the other former Swedish car producer, SAAB Automotive, many of their engineers, managers, and other personnel was recruited by VCC. The SAAB closure also helped CEVT to

become a major R&D center for the Geely Group, with SAABs former Vice President for Product Development ascending to the position of Chief Executive Officer. CEVT continues to take advantage of the regional pool of automotive industry competence through a new development office located a short distance away in SAAB's previous home town of Trollhättan. The former SAAB plant is now part of National Electric Vehicle (NEV) which focuses on the development of electric vehicles for production in China with the Chinese cities of Tianjin and Quingdao as the majority owners.

ANALYSIS AND DISCUSSION

The Geely-Volvo case yields several insights that enhance our understanding of the antecedents of strategic asset seeking and deployment that can give EMNEs a competitive edge relative to their competitors from mature economies. The theoretical modeling of these antecedents is based on the insights derived from this case (see Figure 3).

*** Insert Figure 3 about here ***

Figure 3 provides the structure for the following case analysis and discussion, which concludes with a set of propositions (the eight propositions are also indicated in the figure). Using Figure 3 as a roadmap, we start the case discussion and analysis with Geely's political maneuverability as an antecedent to gaining access to local resources.

Geely's political maneuverability and access to local resources

The case offers several insights into how privately held EMNEs can achieve political maneuverability. First, the Geely case echoes Sun *et al.*'s (2010) definition of political embeddedness as the firm's portfolio of individual and institutional ties to the constituent parts of the state. Geely's political embeddedness resided at the interpersonal level in, for example, Li Shufu's strong ties to political actors on regional and national levels, and at the inter-organizational level in the company's organizational links to political institutions (e.g., provincial governments' co-ownership of the company). In the Geely case, Li Shufu was able to obtain the political support needed to build up a privately owned auto company in China. The establishment, maintenance, and utilization of political support is difficult to perceive as a country-specific advantage (Dunning, 1988; Rugman and Verbeke, 1990) available to *any* domestic or foreign firm. Rather, the ability to access such support should be seen as a firm-specific capability generated as a result of significant investments in building personal relations within political and financial institutions at the local, regional, and national levels. In addition, there are significant costs associated with receiving such political support, which must be managed in a way that allows for a company's long-term survival and growth.

Second, the case provides some insights into the costs and benefits of political embeddedness. Geely's acquisition of foreign strategic assets (*in casu* VCC) could not have occurred without political embeddedness and support. Two benefits arising from its political embeddedness—bidding rights and loans from state banks (Classens, Feijen, and Laeven, 2008; Khwaja and Mian, 2005)—were imperative for Geely's acquisition of VCC. Other benefits in the form of investment subsidies, tax exemptions, and approval as a governmental supplier followed Geely's deployment of the strategic assets. On the negative side, Geely and, in particular, its founder and owner Li Shufu spent a significant amount of time on lobbying, time that was spent away from regular management tasks. Furthermore, the company sacrificed economic efficiency in the pursuit of imposed societal and political goals. For example, the case provides evidence of serious sub-optimization of Geely's car production. The numerous, scattered, and poorly dimensioned production plants (see Figure 2) imply lower

efficiency. VCC's Chinese headquarters is located in Jiading (Shanghai), which is 2,000-2,300 kilometers from the company's car-assembly plants in Chengdu (Sichuan) and Daqing (Heilongjiang). Moreover, these two assembly plants are located more than 3,000 kilometers from each other, while the new engine plant is located approximately halfway between them in Zhangjiakou (Hebei). This results in a situation where it "takes up to three days for deliveries from the engine plant to the car-assembly plants in Chengdu and Daqing, forcing VCC to build large buffer stocks to safeguard against unexpected interruptions in supply" (Personal communication, Deputy General Manager, VCC Daqing, April 2015). It is also clear that VCC's assembly plants have a combined production capacity that is much higher than the current and anticipated production demand. In modern car-assembly plants, efficient production scale ranges from 200,000 to 250,000 units. According to the company's local engineers in China, "VCC should only need one assembly plant to meet production demands, rather than the two in existence. In addition, Geely needs three or four assembly plants to meet production demands, instead of the nine in existence, with more likely to be added to the pipeline. In other words, both Geely and VCC operate their production units well below their efficient minimum scales" (Personal communication, Quality Manager and Industrial Engineering Manager, VCC Chengdu, April 2015).

Third, Geely's political embeddedness has paved the way for expansion into advanced markets. However, this way may end in a blind alley, as the firm maintains political ties to a regime about which some governments and customer groups in advanced economies are skeptical. Hence, Geely's ambitious, high-profile plans for international expansion may have additional costs. The "political establishment" and regulators in advanced economies may not accept privately held emerging economy firms at face value. Rather, consumers and policymakers are likely to investigate the "independence" of these firms, especially with regard to whether their privileges at home could give rise to allegations of unfair competition abroad. The long list of WTO disputes about purported export dumping by Chinese firms highlights that the political pressure for export success may backfire for Geely in the years to come (see, for example, Beittenmiller, 2015, on the U.S.'s WTO dispute with China regarding its "export base" subsidies for auto and auto-parts manufacturers). The inability of privately held emerging economy firms to resist pressures from their home governments to pursue politically motivated agendas may be subject to scrutiny. In the case of Volvo and Geely, the extent to which consumers in the U.S. will accept their cars, either those exported from China or those assembled in the U.S. within a few years remains to be seen. The lack of effective regulations concerning intellectual property in China has also made some existing suppliers in Sweden reluctant to sell their latest auto components to VCC's operations in China, as they fear losing their proprietary technologies (Swedish Radio 2010).

Even though political embeddedness has its negative sides, as indicated above, it is difficult to imagine that Geely could have gained access to local resources and, in turn, bundled those resources with the assets acquired abroad if it had not attained political maneuverability. In this perspective, political maneuverability is not only a facilitator of the coveted complementarities but also an antecedent. Hence, we generalize these case findings into the following propositions:

P1 *Political maneuverability in the home country is a necessary, but not sufficient, condition for EMNEs' achievement of competitive advantage over MNEs from mature economies.*

P2 *Access to resources in the home country is a necessary, but not sufficient, condition for EMNEs' achievement of competitive advantage over MNEs from mature economies.*

These two propositions are listed in the two boxes on the left-hand side of Figure 3.

Geely's market maneuverability, strategic asset seeking, and leveraging

As described in the case, the access to resources that Geely achieved through its political maneuverability not only provided the necessary permissions and capital for acquiring foreign assets, but also made it possible for the Chinese company to leverage those assets in its home market. In addition to these decisive political economy factors, corporate entrepreneurship and management competencies were imperative for the success of this acquisition. In this regard, Geely demonstrated "venturing"—a willingness to engage in new business creation, often with uncertain prospects (Covin and Slevin, 1991; Guth and Ginsberg, 1990; Yiu *et al.*, 2007; Zahra, 1996). The company also demonstrated proficiencies in identifying and assessing suitable acquisition targets abroad. This "sensing" ability may be seen as the most entrepreneurial component in the sensing, seizing, and transforming (or reconfiguring) sequence associated with dynamic capabilities (Al-Ali and Teece, 2013). However, at least as important as the selection of suitable targets is the integration of the acquired targets into the wider corporation. This process requires management skills more than an entrepreneurial ethos. Li Shufu's catchphrase "Geely is Geely and Volvo is Volvo" indicated his caution as well as his recognition that the process of post-acquisition integration would be an extensive undertaking. As expressed by several Volvo managers, Li Shufu's non-interventionist corporate leadership style stood in stark contrast to the micro-management imposed by the Ford Motor Company. The strategic renewal and the fundamental organizational transformation from a bureaucratic to a market-oriented logic that many state-owned EMNEs' struggle with (Child and Rodrigues, 2005; Rui and Yip, 2008; Sheng *et* al., Yiu *et al.*, 2007; Zhang and Van den Bulcke, 1996) was never an issue in Geely's case. On the contrary, Geely cultivated an entrepreneurial ethos from it very inception. Last but not least, Geely demonstrated corporate entrepreneurship with regard to innovation (Awate, Larsen, and Mudambi, 2012; Hannigan, Cano-Kollmann, and Mudambi, 2015). The company's commitment to introducing new products, production processes, and organizational systems is obvious in the case. Hence, there is a significant difference between VCC today and when it was under the Ford Motor Company's ownership in terms of technology and product development. As described in the case, a new car architecture/platform has been developed for VCC and Geely, a range of new car models has been marketed for both VCC and Geely, and a completely new car brand and car concept, Lynk & Co, has been introduced within the last few years.

Based on these case findings, we make the following propositions about EMNEs:

P3 *The acquisition of strategic assets in foreign countries is a necessary, but not sufficient, condition for EMNEs' achievement of competitive advantage over MNEs from mature economies.*

P4 *Market maneuverability in foreign countries is a necessary, but not sufficient, condition for EMNEs' achievement of competitive advantage over MNEs from mature economies.*

These two propositions are listed in the two boxes on the left-hand side of Figure 3.

Geely's competitive advantage relative to competitors from mature economies

Thus far, researchers have mainly focused on the ways in which EMNEs may catch up and achieve competitive parity with MNEs from mature economies (e.g., Awate *et al*., 2012; Mathews, 2006; Mudambi, 2008; Ramamurti, 2012; Williamson and Raman, 2011) or, alternatively, avoid head-on competition with these well-established and entrenched enterprises by leveraging the institutional void and moving into other emerging economies characterized by undeveloped formal institutions (Boisot and Meyer, 2008; Cuervo-Cazurra and Genc, 2008). However, as EMNEs acquire corporate-entrepreneurship and management skills that are comparable to those possessed by mature economy MNEs, they do more than achieve competitive parity—they gain a competitive advantage to the extent that they, with the support of their governments, can leverage acquired technologies and brands in protected home markets (Luo and Tung, 2007; Hennart, 2012, 2018). As the Geely case clearly demonstrates, when EMNEs are equipped with abundant long-term state loans, they can

further develop and capitalize on the technologies and brands they acquire at a pace that MNEs from mature economies cannot match. We have previously alluded to the clear differences between VCC today and the days under the Ford Motor Company's ownership in terms of technology and product development. Innovation has taken place at an accelerated pace. We view Geely as a precursor for EMNEs in general and submit a proposition that can be seen as an amalgamation of the previous four:

P5 *In conjunction, market-political ambidexterity and resource-asset bundling are necessary and sufficient conditions for EMNEs' achievement of competitive advantage over MNEs from mature economies.*

This proposition is listed in the oval circle on the left-hand side of Figure 3.

The dynamics of EMNEs' strategic asset seeking

Most importantly from a theoretical perspective, the case suggests several extensions and refinements of market-political ambidexterity and resource-asset bundling in a dynamic direction: (1) the transition from regional to national political embeddedness, (2) the shift from minor to major foreign acquisitions, and (3) the progression from acquisition to development of strategic assets. In the following sub-sections, we elaborate on these processual aspects and conclude with the formulation of testable propositions.

From regional to national political embeddedness

The case indicates a sequential development of Geely's political network. Geely, as personified by Li Shufu, initially experienced political maneuvering on the local and regional levels. Several years later, the company obtained the national government's political "acceptance." The political embeddedness on the national level opened up for extended access to country-specific resources, such as concessions, state bank loans, and approval as a supplier to national government bodies. Geely most likely learned the rules of the political game in the local environment and later benefitted from that learning to the extent that political embeddedness is about social networks and "insidership."

Geely's progress from regional to national political embeddedness resonates well with contemporary processual views on firms' internationalization. In contrast to the "traditional" internationalization process model (Johanson and Vahlne, 1977), which emphasizes the accumulation of experiential market knowledge as the main driver of the internationalization process, recent versions (Johanson and Vahlne, 2009/2011) are focused on network development as a catalyst of foreign market expansion. The magnitude and quality of the network nodes and ties spun by the entrant firm have a strong influence on its status as either an insider or outsider (Johanson and Vahlne, 2009). Luo (2007) describes MNEs' transitions from "foreign investors" to "strategic insiders." According to Luo, successful MNEs in China have shifted from an early status as foreign investors to a new status of strategic insiders by redefining their strategies and structures to meet local demand and, thereby, achieving localized value-chain integration. While we acknowledge that Geely is not an MNE in China but a Chinese firm, as a privately owned company, it has parallels to entrant MNEs: the status as a strategic insider is not a given from the time of entry—it has to be earned through an integration process.

A large body of literature claims that economic agents that are spatially concentrated benefit from knowledge externalities. Short distances literally bring people together, favor information-sharing contacts, and facilitate the exchange of tacit knowledge and socialization. Conversely, the greater the distance between agents, the less the intensity of these positive externalities, and the more difficult it becomes to cultivate and maintain personal networks. The concept of bounded rationality (Simon, 1957) also suggests that initial search typically takes place within geographically proximate areas. Economic actors are subject to cognitive limitations with regard to where to search for political alliances or other valuable assets. Even in cases where full (rather than

bounded) rationality is assumed, search behavior will be influenced by marginal utility considerations as proposed by search theory (Stiegler, 1961)—political alliances are sought in the surrounding regions where the marginal costs of entering into alliances are lower than the marginal benefits. Furthermore, a number of studies indicate a correlation between geographical proximity and cultural, institutional, and social proximity (for an overview, see, e.g., Boschma, 2005) through which political embeddedness is strongly influenced. All else equal, political ties are more easily spun between economic agents that are embedded in the same culture, are familiar with the same institutions, and are in relationships that involve friendship, kinship, and experience. The case suggests that Geely's and Li Shufu's search for political alliances included these characteristics. Given this background, we generalize the Geely case into the following proposition:

P6 *Privately held EMNEs obtain political maneuverability through a learning and networking process that progresses from the regional level to the national level.*

This proposition is listed on the left-hand side of Figure 3.

From minor to major acquisitions of strategic assets

Another dynamic factor that appears in the case relates to Geely's acquisition of strategic assets abroad and the post-acquisition integration of the acquired companies into the Geely "family." A number of studies subscribe to the idea that foreign acquisitions conjecture a learning-by-doing process (Barkema and Drogendijk, 2007; Barkema and Vermeulen, 1998; Elango and Pattnaik, 2011; Rabiossi, Elia, and Bertoni, 2012; Zollo and Singh, 2004). When studying the foreign acquisitions of Indian firms, Elango and Pattnaik (2011) found that for full (in contrast to partial) acquisitions, the size of the acquired firm was positively related to previous experience. In other words, full but minor acquisitions preceded major acquisitions. The evidence on the effect of previous experience on the focal post-acquisition performance is mixed. Zollo and Singh (2004) argue that one reason why the literature on learning effects in acquisitions has not derived consistent results is that it has failed to account for mechanisms different from "learning-by-doing," such as home-country effects, acquirer firm characteristics, and industry type (Rabbiosi, Elia, and Bertoni, 2012). Learning derived from infrequent and heterogeneous acquisitions in the past may result in erroneous generalizations and "superstitious learning" (Zollo, 2009; Zollo and Singh, 2004). In turn, this "overconfidence" leads the acquirer towards unfitting targets and, subsequently, post-integration hazards. However, the likelihood that Geely engaged in such superstitious learning is relatively low. The acquisitions preceding the takeover of VCC in 2010, including the purchases of Manganese Bronze and Drivetrain Systems International (DSI), took place in 2006 and 2009, respectively. Moreover, like VCC, the targets were both incumbents in the automotive industry. Therefore, Geely's acquisitions were neither infrequent nor heterogeneous (the two root causes of superstitious learning and overconfidence). Furthermore, the present CEO of CEVT, who was CEO of Manganese Bronze in the early years after Geely's acquisition, Gang Wei, characterized this first foreign acquisition as "a deliberate and useful learning exercise that prepared Geely for subsequent takeovers, including that of VCC" (Personal communication, CEVT, Gothenburg, December 2014). Hence, Li Shufu's non-interventionist corporate leadership in relation to VCC may well have been conceived of and developed through the "minor" partial acquisition of Manganese Bronze and the full acquisition of DSI that preceded the "major" acquisition of VCC in 2010. We generalize these findings into the following proposition:

P7 *Privately held EMNEs obtain market maneuverability and acquire strategic assets abroad through a management learning process that progresses from minor to major acquisitions.*

This proposition is indicated by the dotted arrow on the right-hand side of Figure 3.

From acquisition to development of foreign strategic assets

A third potential dynamic component to be added to the bundling model is access to local resources abroad. Geely's investments in generating new strategic assets abroad by building a large R&D unit in VCC's home base in Sweden serves as an illustrative example. Through this investment, Geely gained access to resources and capabilities in one of Europe's largest automotive clusters with a regional concentration of many specialized institutions, suppliers, and consultancy firms, including those specialized in the recruitment of key personnel. This contributed to the buildup of a major R&D center for the whole Geely Group. Theoretically, this shows that emerging economy firms can use their home-based advantages, such as political embeddedness, low-cost production, and access to a large market, to build new complementary resources abroad, which helps generate a unique combination of FSAs. This aligns with Dunning and Lundan's (2008) perspective that firms can generate competitive advantages by combining and coordinating resources in various countries. It also extends the bundling model (Hennart, 2012) by adding a dynamic element in which a firm's complementary resources in its home country are made more valuable and unique by strategic investments abroad, thereby creating a sustainable competitive advantage (Barney, 1991).

Hence, we submit a final proposition about the dynamic aspects of the bundling model:

P8 *EMNEs have the potential to achieve sustainable competitive advantage through further development of strategic assets acquired abroad.*

This proposition is indicated by the box "Development of acquired strategic assets" in the lower, right-hand part of Figure 3.

From institutional leverage in emerging markets to differentiation in advanced markets?

As a last dynamic aspect, the Geely case demonstrates how political embeddedness may translate into locational advantages and, in turn, government-supported international expansion. With China as an export base, Geely has spun a distribution network in a number of emerging markets. Geely's initial expansion abroad was directed towards other emerging markets, and not Europe, North America, or other advanced markets, and its motive was basically to strengthen its position in China. This suggests that Geely's early internationalization was based on a cost-leader strategy, which is a common strategy among emerging economy firms in which they exploit their low-cost manufacturing base in combination with some FDI and non-equity arrangements in other emerging markets (e.g., Zeng and Williamson, 2007; Williamson and Zeng, 2009). Whereas this part of Geely's international expansion is consistent with the institutional leverage perspective (Boisot and Meyer, 2008; Cuerzo-Cazurra and Genc, 2008; Cuerzo-Cazurra, 2012), whether Geely can succeed in advanced markets remains to be seen. Due to the many unknowns about Geely's future performance in advanced markets, we will abstain from formulating a proposition in relation to this dynamic aspect.

Limitations of the study

Our study has some limitations. We have focused on strategic asset seeking by one company (Geely) in one industry (the automotive industry) in one emerging economy (China). As such, one might question the study's external validity. We have indicated that our findings primarily apply to privately held emerging economy firms with large home markets. However, other limits of our study may also apply. For example, the insights provided by our study may not be valid for industries in emerging markets that are subject to less regulation than the Chinese automotive industry. Furthermore, our discussion of the costs and benefits of political embeddedness in relation to the exploitation of strategic assets in advanced markets is rather speculative and not based on empirical observations ex post. Hence, we can only guess about the impact of Geely's political embeddedness on its future expansion into these markets. Another limiting factor may be that our general analytical framework

adopts the lens of emerging economy firms. Alternatively, we could have chosen to apply a dyadic approach that would encompass the perspectives of both the acquiring emerging economy firm and the acquired MNE (i.e., Geely and VCC, respectively).

CONCLUSIONS

By combining the bundling model (Hennart, 2009, 2009, 2018) with the concept of market political ambidexterity (Child and Rodrigues, 2005; Li, Peng, and Macauley, 2013; Sheng, Zhou and Li, 2011; Zhang and Van den Bulcke, 1996), this study has provided an enhanced understanding of the antecedents of strategic asset seeking and deployment that may give EMNEs a competitive edge over their competitors from mature economies. We adopted a process view of how these antecedents evolve by studying Geely, a privately held Chinese automotive producer.

Our case study points to several avenues for making the concept of market-political ambidexterity and the bundling model more dynamic. By highlighting the interconnectedness between FSAs and CSAs, the bundling model in its current form offers a more nuanced view of the OLI framework (Dunning, 1977; Dunning and Lundan, 2008) as an explanans of the internationalization of emerging economy firms. Our study offers support for the two-way causality or intertwining of FSAs and CSAs as purported by the bundling model. In other words, the bundling model's predictions of complementarities between firm-specific capabilities and country-specific advantages find resonance in the Geely-Volvo case. This bodes well for an even more nuanced and dynamic bundling model and, in turn, an enhanced OLI paradigm.

More specifically, our study has presented a new, dynamic, and processual version of the bundling model. The case methodology adopted in this study provides insights into the progressive possession of complementary local resources. As drivers of this progression, we observed two learning processes: one from regional to national political embeddedness and another from minor to major acquisitions of strategic assets in advanced economies. These learning processes also resonate well with the linkage-leverage-learning framework that describes the internationalization trajectories of EMNEs (Mathews, 2006). Perhaps even more interestingly, the Geely case demonstrated the leveraging of strategic assets at home as well as the further development of those assets by way of gaining access to complementary local resources abroad. Geely not only acquired valuable resources in Sweden by acquiring VCC—the company also tapped into the pool of engineering talent in Sweden's automotive industry cluster. These observations may inform the literature on strategic asset seeking with regard to the aftereffects of acquiring intangible assets abroad. Are these assets exploited as they are and eventually exhausted, or are they further developed and thereby a potential source of *sustainable* competitive advantage for EMNEs? This case suggests that the acquisition has thus far been a win-win scenario. Geely has managed to leverage the acquired VCC assets in its home market. VCC has developed stronger R&D capabilities through Li Shufu's non-interventionist corporate leadership and his access to abundant financial resources, which are in clear contrast to the meager interventionist years under the ownership of the Ford Motor Company. Hence, from a dynamic perspective, the most valuable assets acquired by Geely may not be the Volvo brand and technology, but the new capabilities that Volvo and Geely develop together.

Last but not least, we have spelled out another complementarity in relation to the FSAs of EMNEs: not only do the managers of these firms have to eloquently navigate the political landscape at home, but they must also possess international management skills on par with or better than their counterparts in MNEs from advanced economies. In other words, EMNEs have to embrace both markets and governments by developing market-political ambidexterity.

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TABLES

Table I. Total sales of Geely cars, 2005-2016

	2005	2010	2011	2012	2013	2014	2015	2016	2017*
Total sales (units)	130’	416’	422’	483’	550’	418’	510’	765’	1245’
Exports (%)	5%	5%	9%	21%	22%	14%	5%	3%	1%

Source: Geely, Annual reports *Including the Lynk & Co brand

Table II. Volvo Cars' major sales markets 2006- 2017. Thousand units and % of world sales.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sweden	55	62	48	42	53	58	52	52	61	71	70	74
	13%	*14%*	*13%*	*12%*	*14%*	*13%*	*12%*	*12%*	*13%*	*14%*	*13%*	*13%*
China	7	12	13	22	31	47	42	61	81	82	91	114
	2%	*3%*	*3%*	*7%*	*8%*	*10%*	*10%*	*14%*	*17%*	*16%*	*17%*	*20%*
USA	115	106	73	69	53	67	68	61	56	70	83	82
	27%	*23%*	*20%*	*18%*	*14%*	*15%*	*16%*	*14%*	*12%*	*14%*	*16%*	*16%*
Europe	186	201	177	171	176	193	175	173	182	198	206	227
	44%	*44%*	*47%*	*51%*	*47%*	*43%*	*42%*	*41%*	*39%*	*40%*	*39%*	*40%*
ROW	63	76	64	38	60	82	85	79	84	82	84	80
	15%	*17%*	*17%*	*11%*	*16%*	*18%*	*20%*	*19%*	*18%*	*16%*	*16%*	*14%*
Total	428	458	374	334	374	449	423	428	466	503	534	577
	100%	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*

Source: Volvo Cars, Annual reports

FIGURES

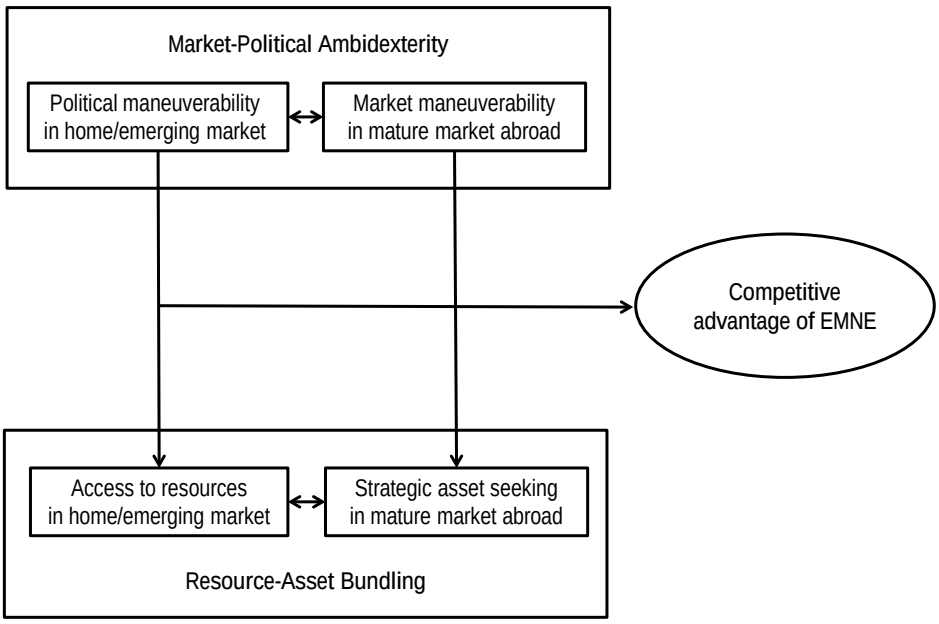

Figure 1. Analytical framework

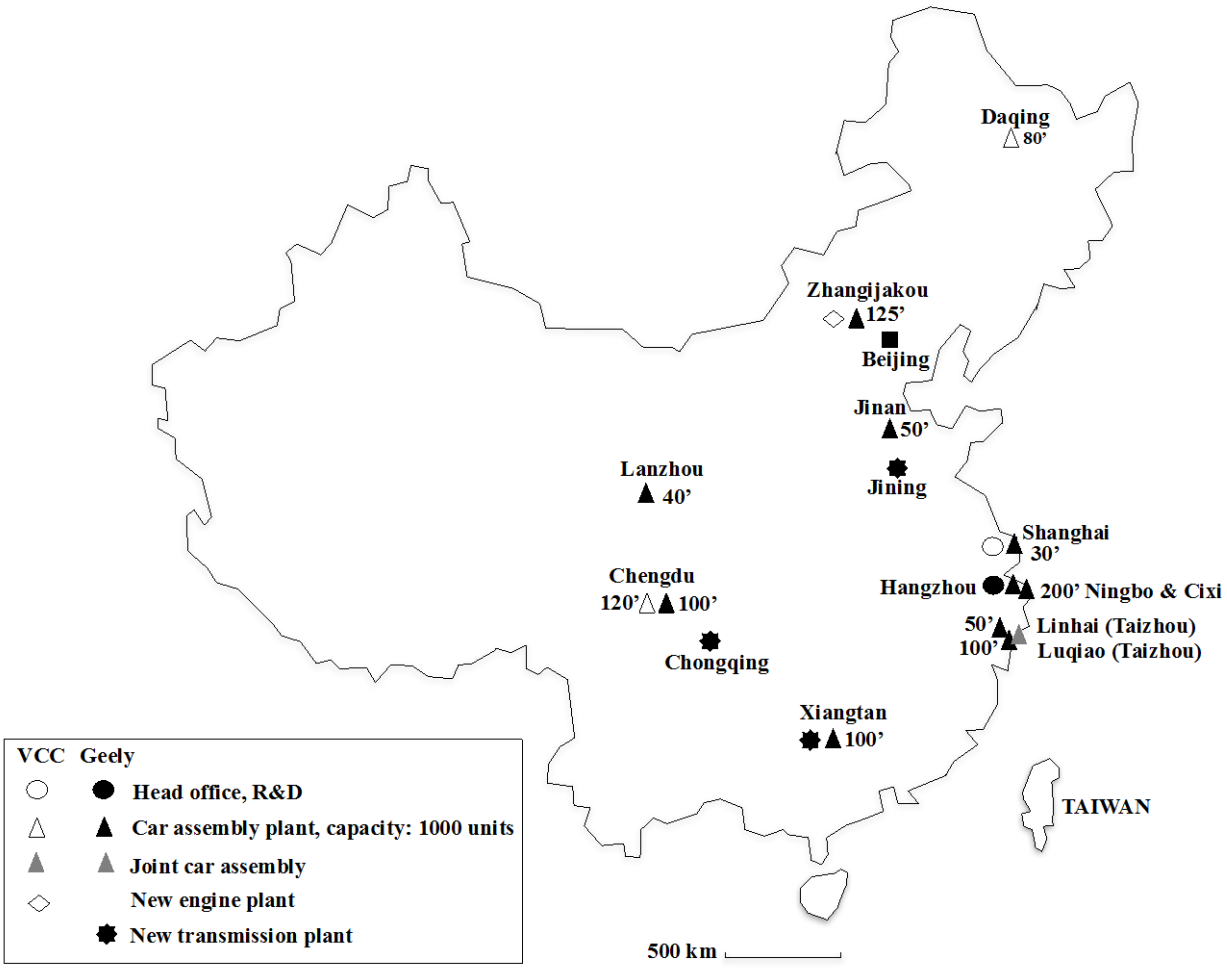

Figure 2. Major locations of Volvo Cars Corporation and Geely Automotive in China, 2017 (Source: Various websites of Geely and VCC)

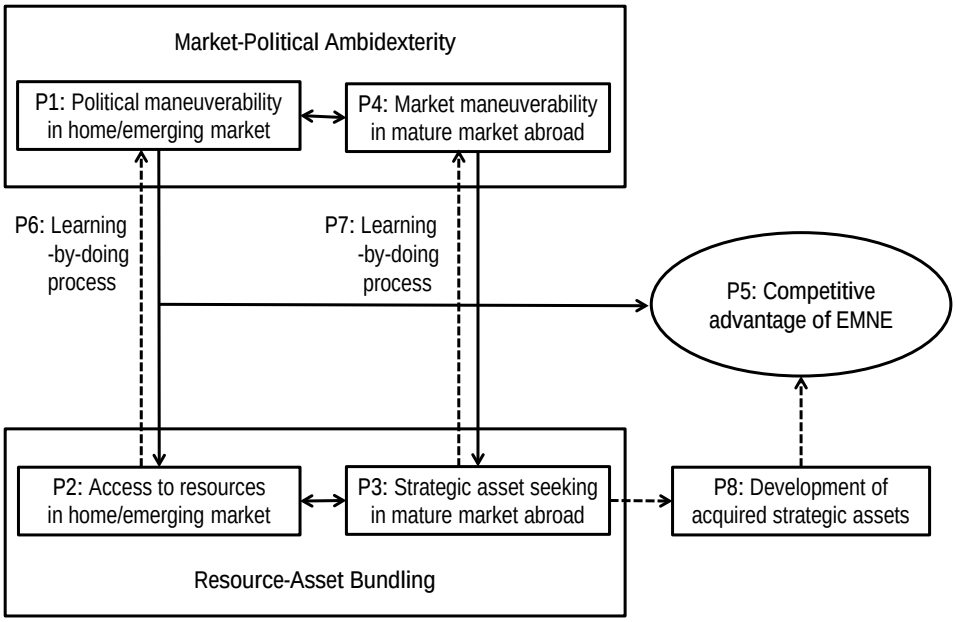

Figure 3. Theoretical model (with indication of propositions)

Appendix A. Company visits and informants in Sweden and China 2011-2016.

Venue	Informant	Date
VCC Gothenburg	*Chief Engineer, Vehicle Architecture*	Sep. 2011
VCC Gothenburg	*Sourcing Manager*	Oct. 2014
VCC Gothenburg	*Sourcing Manager*	Dec. 2012
VCC Gothenburg	*Purchasing Director*	Nov. 2011
VCC Gothenburg	*Sourcing Manager*	Mar. 2012
VCC Gothenburg	*Vice President Sourcing*	Sep. 2012
VCC Gothenburg	*Vehicle Line Management Large Cars*	Aug. 2011
VCC Gothenburg	*Vice Chairman, VCC*	Oct. 2014
VCC Jiading	*Director System Engineering*	April 2011
VCC Jiading	*Vice President Engineering and R&D*	April 2011
VCC Jiading	*Business Analyst*	April 2012
VCC Jiading	*Vice President Vehicle Line Management*	April 2012
VCC Jiading	*Sourcing Manager*	April 2012
VCC Jiading	*Vice President Sourcing*	April 2012
VCC Jiading	*Director, R&D Powertrain*	April 2012
VCC Jiading	*Powertrain Director, R&D*	April 2012
VCC Jiading	*Director System Engineering*	April 2012
VCC Jiading	*Director System Engineering*	April 2012
VCC Pudong	*Vice President Human Resources*	April 2012
VCC Pudong	*Vice President Human Resources*	April 2012
VCC Pudong	*Director Sales*	April 2012
VCC Chengdu	*Site Manager*	April 2012
VCC Chengdu	*Industrial Engineering Manager*	April 2015
VCC Chengdu	*Quality Manager*	April 2015
VCC Daqing	*Deputy General Manager*	April 2015
VCC Daqing	*Deputy Supply Chain Manager*	April 2015
VCC Daqing	*Corporate Communications*	April 2015
VCC Zhangijakou	*Sourcing Manager*	Nov. 2014
VCC Zhangijakou	*Material Planning & Logistics Manager*	Nov. 2014
CEVT, Gothenburg	*Deputy CEO, CEVT*	Jan. 2015
CEVT, Gothenburg	*Deputy CEO, CEVT*	Jan. 2014
CEVT, Gothenburg	*Deputy CEO, CEVT*	April. 2016
CEVT, Gothenburg	*Senior Vice President, Quality*	April. 2016
CEVT, Gothenburg	*CEO, Geely*	Dec. 2014
Geely Auto, Chengdu	*Plant Manager*	April 2012
Geely Auto, Cixi	*Plant manager*	Oct. 2013
Geely Auto, Hangzhou	*Plant manager*	April 2011
Daqing State Asset Operation Co.	*Administrative officer, A*	April 2015
Daqing State Asset Operation Co.	*Administrative officer, B*	April 2015

Appendix B. The development of Geely 1986-2017

1986	Geely is established as a private company producing refrigerators for the domestic market.
1994	Geely starts producing and exporting motorcycle parts and scooters.
1996	Geely acquires a car production license. Establishes an industrial footprint in China with HQ and R&D in Hangzhou and integrated assembly plants in Shanghai, Ningbo, Linhai, and Luqiao.
1998	Production of the first Geely car (Haoqing SRV) in the Linhai factory.
2003	First export of cars to emerging markets.
2006	JV with Manganese Bronze, UK, for production and sales in China.
2006	**N**ew assembly plants in China (Xiangtan, Chengdu, Lanzhou, and Jinan).
2007	Geely sets up local JVs and non-equity partnerships for CKD assembly in emerging markets.
2009	Geely acquires Drivetrain System International, Australia, and builds three new transmission plants in China (in Xiangtan, Jining, and Chongqing).
2010	Geely acquires Volvo Car Corporation (VCC) from the Ford Motor Company. New VCC China organization with HQ, R&D, sourcing, and sales office in Shanghai. Geely makes large investments in VCC operations in Sweden (Gothenburg) for new car architectures (SPA, CMA), new engine technology (VEA), and an expanded stamping plant.
2013	VCC opens a new car assembly plant in China (Chengdu) adjacent to existing plant. Geely open a new joint R&D center, CEVT, in Sweden (Gothenburg) for VCC and Geely
2014	VCC opens a new car assembly plant in Daqing and a new engine plant in Zhaijakao for Volvo and Geely models. Geely acquires Emerald Automotive, U.K.
2015	VCC starts exporting cars from China (Daqing) to the U.S.. Geely orders 11 new models from CEVT to be produced in China.
2016	CEVT launches a new car brand (Lynx & Co) with production in China (Luquio), and introduce a new electric technology for VCC and Geely.
2017	A new car assembly plant for Volvo and Geely models is built in Luciano, China. New car assembly plant in Zhaijakao, China, adjacent the existing VCC engine plant.
2018	New car assembly plant for Volvo car models in Charleston, SC, U.S.