

MORPHING:

THE LINKAGE OF INWARD PRIVATE EQUITY AND OUTWARD VENTURE

Abstracts

Private equity is impacting global economies and competitive landscapes of multinational enterprises (MNEs). In this pioneer research, we first find an important new pattern of globally interfirm connections: the inward private equity investment likes to promote Chinese firms' outward venture, or an inward-outward linkage. Under this inward-outward linkage, after received investment from private equity, Chinese emerging MNEs are likely to restructure board, rebuild the top management team, reconfiguring resource, reframe the industry structure and alter competitive dynamics, thus, modify their strategies in outward ventures, such as accelerating the internationalization speed, locating more outward ventures in developed economies, and engaging complex entry modes, especially cross-border M&As. We called the emergence of this new species of MNEs as a "morphing" metaphor, with in-depth seven case studies, including Lenovo, Zoomlion, Geely, Alibaba.com, Huawei, NVC lighting, and BYD.

Keyword: Private equity, internationalization, linkage strategy, organization form.

Like animals in a zoo, multinationals (and their affiliates) come in various shapes and sizes, perform distinctive functions, behave differently and make their individual impacts on the environment.

--- John Dunning, 1974

What are the driving forces behind Chinese firms' outward investment and venture? According to the *World Investment Report 2009*, in this global financial crisis, China has significantly strengthened outward foreign direct investment (OFDI). While the worldwide FDI flows decreased by 14% in 2008, OFDI flows from China increased by 111%, up to \$56 billion,¹ ranking it the 12th largest source country of OFDI in the world (UNCTA, 2009). Previous research has attempted several explanations of these driving forces, such as technological opportunities and non-codifiable skills (Mutinelli and Piscitello, 1998), strategic resources (Deng, 2007), product differentiation (Sirkin, Hemerling, & Bhattacharya, 2008), international experience (Shimizu, Hitt, Vaidyanath, & Pisano, 2004), socio-cultural distance (Tihanyi, Griffith, & Russell, 2005), size of the target market (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2009), trade liberalization (Breinlich, 2008), corporate ownership and capital (Morck, Yeung, & Zhao, 2008), state-owned enterprise (SOE) backed with state capitalism (Bremmer, 2010) and comparative ownership advantage (Sun, Peng, Ren, & Yan, 2010). However, they ignore an important trend of capital globalization, the internationalization of private equity.

Private equity is impacting global economies both in terms of size and geographic reach. The total value of firms invested by private equity is estimated to be \$3.6 trillion between 2001 and 2007 (Gurung and Lerner, 2008). Its investment is also under fast internationalization (Cumming, Sapienza, Siegel, & Wright, 2009; Guler and Guillen, 2010b), for example, China received foreign private equity

¹ All monetary units in this article refer to U.S. dollars.

investments of US\$12.8 billion in 2007. Although its amount decreased to \$8.6 billion in 2008 thanks to the global financial crisis, a total of 117 companies received new investments in 2009, and 80 companies invested by private equity underwent IPOs or exited from public trading in 2009—an increase of 43% compared with 2008.² China has emerged as one of the leading destinations for private equities and hotspot of IPO market and that 43.75% Chinese companies among 176 IPOs in 2009 were endowed by private equities with US\$15.6 billion. Thus, important questions have arisen about the impacts of globalized private equity on China: how this foreign private equity, called inward private equity in this research, change the destiny of local Chinese firms' outward foreign investment and venture? How does this outward venture change the competitive landscape around the world?

In this research, we find an important phenomenon in this new wave of globalization: the inward private equity investment likes to promote Chinese firms' outward venture, or an inward-outward linkage. We called the emergence of this new species in multinational enterprises (MNEs) zoologies (Dunning, 1974; Narula, 2006) is a morphing process, a biological metaphor that “an animal physically develops after birth or hatching, involving a conspicuous and relatively abrupt change in the animal's form or structure through cell growth and differentiation” (Wikipedia.org) . While the rule of game and competition is under fundamental shift, the organizational form, function, and competitive advantage of these firms will be raptly changed and dynamically coevolved. Rindova & Kotha (2001) named it as “continuous morphing”. Followed their concept, we try to combine three streams of literature, identify the new force behind the new outward venture wave from Chinese firms, and contribute to a growing body of research in organization adaptation.

First, following Dunning (1974)'s metaphor in zoologies, we try to identify a new species in

² Zero2ipo Research Center (2010) Chinese Renminbi private equity fund becomes main strain in fund-raising. Jan. zero2ipo.com.cn.

MNEs literature. The outward investment of Chinese MNEs, backed with inward private equity, has different shapes and sizes, perform distinctive functions, and strategy from traditional MNEs from developed economies (DE MNEs). In line with literature of international entrepreneurship (Oviatt and McDougall, 1994), we find outward investment's strong reliance on alternative governance (hybrid) structures to access resources, such as strategic alliance with private equity's partners and access private equity's resource. So we call it outward venture, which is substantially different from traditional MNE's subsidiary. In addition, this new species is under continuous emerging to adapt the global environmental change, and at the same time, it also reframes the industry structure and alters competitive dynamics, which is previously dominated by incumbent DE MNEs.

Second, we develop an inward-outward linkage perspective on contributing to the organization form in organization theory and value creation in strategy theory. In a broad definition, organization form is "the configuration of products, services, resources, and structures that define an organization as a distinct entity and as a provider of a particular type of product or service" (Rindova & Kotha: 2001: 1273). How the organization form changes and adapts in competitive environment is a central research topic in organization and strategy. In MNEs literature, There has been a debate on whether emerging MNEs from emerging economies (EE MNEs) as later comers have internationalization strategies that differ from traditional strategies of MNEs from DE (Dunning, 2006; Mathews, 2006; Narula, 2006). Mathews (2006) argued that the EE MNEs as challengers have a distinguish organization form in source linkage, leverage and learning to overcome the sometimes fierce resistance of incumbents. Our findings in this paper suggest that outward venture of EE MNEs supported by inward private equity can re-construct the resource portfolio; re-bundling resource to build new capability, and leveraging capability to exploit new opportunities, This inward-outward

linkage perspective on the resources accessed through internationalization can inspire scholars to a rethink the criteria normally utilized in traditional resource-based accounts of strategy, which focuses more on the internal resources of firms (Lavie, 2006), and to further develop the value creation and capture theory in strategy (Lepak, Smith, & Taylor, 2007).

Third, we enrich the entrepreneurship and private equity (including venture capital) research under this new perspective of inward-outward linkage. Traditional private equity literature focuses on the conflicts between an agent (entrepreneur) and a principal (investor), treating the role of private equity as financial intermediation to alleviate moral hazards or adverse selection (Bruton, Filatotchev, Chahine, & Wright, 2010). Agency theory then identifies the role of private equity investor as a principal in structuring financial contracts and monitoring the venture (Kaplan and Stromberg, 2001). Private equity investor also acts as a “coach” to professionalize new venture, provide value-added services such as introducing stock option plans, hire a vice president of sales and marketing, formulating human resource policies (Hellmann and Puri, 2002), and even appoint a non-founder as CEO (Hellmann, 1998). In our inward-outward linkage perspective, private equity plays an active role in speeding up Chinese MNEs’ internationalization, in reconfiguring the resource, and in prompt the location and market entry strategy.

METHODS

We use an inductive multiple-case research methodology, which is especially suitable for investigation phenomena with limited extant theory on the rarely explored subject of private equity. According to Eisenhardt & Graebner (2007), using a case approach for exploratory, descriptive, and explanatory questions typically yields novel and accurate insights from the phenomenon under study. It is also widely used in international business field (Meyer and Altenborg, 2008; Piekkari, Welch, &

Paavilainen, 2009). Analyzing through constant comparison and validating both theories and data, we treat cases as a series of independent experiments in order to confirm or disconfirm our theoretical construction. We examine the relevant data collected from multiple sources, such as survey data, interviews, and commercial databases as well as publicly available data.

Data Sources We try to reach theoretical sensitivity on the sampling process, and keep the process of data collection, codification and analysis “being steeped in the literature that deals with both the kinds of variables and their associated general idea that will be used” (Glaser, 1978:3). First, we focus on mainland Chinese firms listed in the Hong Kong Stock Exchange (HKEX) with private equity investments, because the HKEX requires listed firms to disclose the private equity investment information in the firm’s IPO file and annual report. From 264 Chinese firms listed in the HKEX from 1993 to 2009 (including H share companies and private-owned companies), we identify 5 companies under fast track of internationalization: Lenovo, Geely Auto, Alibaba.com, NVC Lighting and BYD Auto. These five companies cover the industries of information technology, e-commerce, manufacturing, and new energy. We then find the related internationalization information from corporate announcements, shareholder circulars, and other corporate communications (e.g. IPO report, annual reports, and prospectuses).³ Second, we also validate private equity information from Zero2IPO Database, which is the only source for accurate, comprehensive, and up-to-date information covering venture capital, private equity funds, firms, executives, and portfolio companies focused on mainland China. We identify another case of Zoomlion (listed in mainland China). Finally, further to reduce sample selection and firm survival bias, we include the case of Huawei, which is failure to bid 3Com, American company which was finally acquired by HP.

³ http://www.hkexnews.hk/listedco/listconews/advancedsearch/search_active_main.asp

After identifying these seven cases, we interviewed nine entrepreneurs or TMT members of these companies, and five senior managers or partners of private equity investors who have invested in these companies in Beijing, Shanghai, Changsha, and Shenzhen during the last three years. We also interviewed two lawyers involved in these deals. We collected 145 media reports related these companies in Chinese covering seven years' history. This long-span of data collection improves our interpretation of the data and helps construct systematical theories. The summary of these seven companies are shown in table 1.

[Insert Table 1 here]

Analysis To identify the similarities and differences in the organization morphing and transformation, we contracture a case history for each company based on 145 feature articles from various publications. Following Rindova and Kotha (2001)'s method on systematical "open coding" of firm actions in internationalization strategieis, we seperate data into instances, compare these instances, then reassemble them into the new order to characterize each morphings of companies. Through this procedure, we can identified these morphings associated with corporate governance changes, products innovations, resources deployment, and organzation change of form and function (Piekkari et al., 2009).

We also discuss our findings with colleagues, financial analysts in investment banks, news reporters who write the stories of these seven companies, and magazine editors in related fields to validy our theories as same as in other qualitive research (Brown and Eisenhardt, 1997; Rindova and Kotha, 2001).

To verify the cause effect relationship, we carefully identify the company's time line of the

evolution, such as the time lag between the founding of a firm, the private equity investment year, and firms' initiation of international operations. We also cautiously measure the stage and speed of a firm's subsequent international growth, for example, how fast the firm increases international sales after an initial strategy and organization morphing have been made (Autio, Sapienza, & Almeida, 2000). Through these, we can identify patterns of morphing in the focal companies, and specify the relationship between organization changes and internationalization.

CASES DESCRIPTIONS

CASE I. Lenovo Group Ltd.

Lenovo Group Ltd (Lenovo hereafter) is a multinational computer technology corporation that develops, manufactures and markets desktops and notebook personal computers, workstations, servers, storage drives, IT management software and related services. Incorporated as "Legend" in Hong Kong in 1988 by Mr. Liu Chuanzhi, Lenovo's principal operations and research centers are currently located in China, Singapore, Japan and the U.S. It was the fourth largest vendor of personal computers in the world by 2009.

Lenovo's global ambition has been rooted since its establishment. Having expanded rapidly to become the biggest player in the domestic computer market, Lenovo was hoping to propel itself from national champion to global winner and "ready to go global". Liu and his successor Mr. Yang Yuanqing perceived one of the most important ways for going global to be obtaining support from international investors, especially private equity investments, for the company to acquire assets and key technologies abroad to boost its expansion. In 2005, Lenovo acquired the former IBM personal computer business (ThinkPad) for approximately US\$1.75 billion, with PE financing from Texas

Pacific Group (TPG) and General Atlantic (GA). The two PE firms paid US\$350 million for a 12.4% in Lenovo and took non-control participation in Lenovo's overseas acquisition. This deal not only morphed a regional business into the global giant PC maker, but also helped these PE investors further validate putting boots on the ground in China.

This cross-border acquisition was not a coincidence but had been conceived for a long time. Back in 2000, a group of GA investors met in China with Legend's chairman Liu. GA was mostly interested in learning more about early-stage investment opportunities in China, while Liu was looking for advice on the possibility of Legend spinning out its distribution and software assets, the Digital China. Less than one year later, GA had invested in the Digital China spinout. Shortly after, Legend renamed its core PC business Lenovo. Then fast forward four years, Liu had come to the realization that Lenovo was not long for the world if it didn't expand beyond its Asia-Pacific base. The company therefore decided to acquire assets outside China. The most obvious – and ambitious – option was to strike a deal with IBM, whose CFO John Joyce had told Lenovo that the legendary ThinkPad division soon would be on the auction block. GA agreed for an equity participation on the deal and conducted due diligence at the request of Liu.

At around the same time, the U.S.-based private equity TPG was also taking a good hard look at the ThinkPad division. Several other parties also bid, but IBM only seriously considered Lenovo and TPG. In the end, IBM believed that the possible synergies would trump home-field concerns. Soon after, Lenovo invited TPG and its Asian affiliate Newbridge Capital into the deal. The final transaction was valued at US\$1.75 billion, including US\$500 million in assumed debt. As part of the deal, Lenovo also received a US\$350 million private equity commitment from TPG (US\$200 million), GA (US\$100 million) and Newbridge (US\$50 million). Approximately US\$150 million of the investment was used

directly to support the ThinkPad acquisition, while the rest was earmarked for general corporate purposes.

IBM also maintained a 17% stake in the business, in order to remain a better working partnership with Lenovo. Part of this process is to involve the two PE firms GA and TPG on much of the decision making. The PE firms are treated like partners instead of like minority investors, and that Lenovo understands the benefits of Western voices on its board while trying to penetrate U.S. consumer consciousness. The PE investors also helped Lenovo navigate U.S. political waters, which were roiled with the idea of identifiably American products like IBM PCs being owned by a Chinese entity. However, up to recently Lenovo has been enduring a series of integration problems in the post-acquisition stage with severe financial constraints after the global financial crisis. The new venture is undergoing restructuring but the future for Lenovo is remained to be seen.

CASE II. Zoomlion Heavy Industry Science& Technology Development Co. Ltd.

Changsha Zoomlion Heavy Industry Science & Technology Development Co. Ltd. (Zoomlion hereafter) is a leading construction and mining equipment manufacturer globally and the No.1 player in the China market. It was founded in 1992 in Changsha, and is currently traded in Shenzhen Stock Exchange with a market cap of approximately US\$4.6 billion. The company is engaged in researching and manufacturing the key machineries for national infrastructural construction. Its product portfolio consists of over 100 different products, including concrete machinery, cranes, sanitation equipments, road construction machinery and other types of construction machinery and products. In the eyes of its chairman, Zoomlion's best method for going global is through mergers and acquisitions across the border.

In September 2008, Zoomlion teamed a consortium of PE investors including Hony Capital, Goldman Sachs and Mandarin Capital Partners (a Sino-Italian private equity fund sponsored by China Development Bank, the Export-Import Bank of China and Banca Intesa Sanpaolo) to acquire 100% equity stake of Compagnia Italiana Forme Acciaio S.P.A (CIFA), a leading Italian concrete machinery maker, in an all-cash transaction from Magenta Fund – an Italian private equity fund – and other shareholders of CIFA. The acquisition closed on September 18, leading to the 375 million euro deal, of which Zoomlion contributed 272 million euro from investors. A credit plan was arranged for the balance. The combination has created the world’s largest concrete machinery manufacturer by revenue with sales and service networks in most major markets around the globe.

Looking backward, Zoomlion came on strong with domestic buyouts before looking toward Italy. In the months before the CIFA deal, it bought Shaanxi New Huanggong Machinery, an 82 percent share in Hunan Auto Axle Factory, and an 82 percent stake in Foretide Machinery Manufacturing Co. On the other side, CIFA posted about EUR€300 million in sales and EUR€8.72 million in net profit in the year before the acquisition.

Behind the buyout of an Italian company by heavy equipment maker Zoomlion was a PE consortium with a clear strategy. Hony Capital, a China-focused middle-market private equity firm which helped restructure Zoomlion in 2003 and owns 18 percent of its shares, has been a financial investor of Zoomlion since 2006. Hony became the second-largest shareholder (26 percent) after the state, and Zoomlion’s management owns 12 percent of the company at that time. Both the PE firm and Zoomlion share a goal known in China as “going global.” Now, Zoomlion’s successful takeover has encouraged Hony to seek additional projects involving major, state-owned enterprises (SOEs) with international ambitions.

The combination of a strategic buyer and carefully selected financial sponsors ensured a speedy and effective integration of the companies. The addition of CIFA has enabled Zoomlion to expand its market leadership in concrete machinery to the mature European markets and to capture fast emerging markets such as Russia and India. CIFA's strong international brand and innovative technology combined with Zoomlion's dominant market position in China and efficient manufacturing expertise could enhance Zoomlion's ability to sustain the phenomenal growth rate it has achieved in the past. The acquisition would also help Zoomlion tap CIFA's sales channels to expand market share in Europe, Russia, India and the Middle East in the future.

Meanwhile, the major apparent risk for Zoomlion's acquisition of CIFA is the current business climate. The heavy equipment industry grew quickly in the first half of this year but may be affected later by the world's economic downturn. The future of the real estate industry will have a direct impact on the development of the industry and Zoomlion, which supplies equipment from cranes to cement trucks.

CASE III. Geely Auto

Geely Auto (Geely hereafter) is a Chinese automaker and the first independent and largest private automobile manufacturer in China. Its parent company Geely Holding Group began manufacturing in 1986 in Taizhou, Zhejiang province. The privately owned Geely has built a business selling cars, motorcycles and scooters with little government support. In 2009, Geely announced its intention to acquire Volvo Cars from Ford Motor Company, and it signed a deal with Ford to acquire its ailing Swedish luxury car brand Volvo for \$1.8 billion in March 2010.

A Goldman Sachs -managed private equity fund invested about \$250 million in Geely Holding Group's Hong Kong-listed arm to fund the Chinese auto maker's growth ambitions. Geely planned to

use the money to fund its working capital as it expands. That could free up capital for its parent to bid for Ford's Volvo unit. The Goldman Sachs fund was investing in convertible bonds and call warrants that would give it a minority stake in the Chinese auto maker. The exact size of the stake will vary depending on whether the company hits certain targets and whether Goldman decides to exercise the warrants. This investment of US\$250 million represents around 15% of the listed arm's market capitalization of over \$1.6 billion.

The Goldman's PE investment is chunky compared with typical private equity deals in China. Most deals are below US\$100 million because Chinese business owners rarely give up control and deals bigger than US\$100 million require central government approval.

The deal is China's biggest overseas auto purchase and represents the most ambitious move by a homegrown auto brand. Ford had been trying to sell Volvo since late 2008 to focus its resources on managing its core Ford, Lincoln and Mercury brands. It finally chose Geely as the preferred bidder, which also had long coveted a stronger foothold in Europe. The acquisition has offered Geely, which was previously viewed as a producer with lower-end image, the access to a high-end brand and technology it needs to compete with much bigger rivals in China.

The money raised from a Goldman investment could be used to expand production capacity. Volvo has remained a separate company with its own management team based in Sweden. Ford has said it will continue to supply Volvo with engines, transmissions and other vehicle components. It also agreed to provide engineering and technology support and access to tooling for common components for an unspecified period. Volvo Car has about 20,000 employees worldwide, including almost 14,000 in Sweden. The unit had pretax profit of \$53 million in the second quarter, compared with a \$237 million loss a year earlier

European Union regulators approved the deal in early July, and Geely has received the final Chinese government approval from the Ministry of Commerce for the deal at the end of July, with no conditions attached, paving the way for the completion of this acquisition. This is a sign that Chinese companies are encouraged to expand abroad taking advantage of the global financial crisis to acquire assets at lower prices.

It is believed by the media that the deal gives Geely an edge in China, which is the world's biggest auto market and one in which foreign brands often dominate. Volvo will also allow it to gain its first major foothold in Europe. This acquisition is a milestone in China's automobile industry, especially when Chinese automakers are considering overseas expansion.

CASE IV. Alibaba.com Corporation

Alibaba.com Corporation (hereafter Alibaba) is the largest e-commerce company in China. The Alibaba group of companies runs three markets on the Internet: www.alibaba.com, the largest import/export web site in the world matching foreign buyers with exporters in China and other manufacturing countries; china.alibaba.com, China's largest online platform for domestic B2B trade; and www.taobao.com, a leading online platform for C2C and B2C transactions within China. Alibaba was founded in 1999 by Mr. Jack Ma (Ma Yun) and is privately held. The company is based in Hangzhou, eastern China, and has 1,300 employees worldwide.

Since establishment, Alibaba has been actively seeking for opportunities to expand overseas. It has chosen private equity funding to achieve its international ambitions. Upon starting up, Alibaba first approached Softbank Corp. and its president and CEO Mr. Masayoshi Son in Japan for initial PE investment. Perceiving Alibaba as the leader in Chinese e-commerce and Internet global trade, Masayoshi and Softbank had been pleased to invest in Alibaba. In 2000, Alibaba received US\$20

million funding from a Softbank-led syndicate of PE investors. In addition to the funding, Softbank would like to continue contributing additional capital and resources to develop versions of Alibaba in Japan, Korea and Europe. In 2004, Alibaba raised US\$82 million from institutional investors in the largest private equity commitment ever in the Chinese internet sector. The investors were Softbank, the venture arm of Fidelity Investments, Granite Global Ventures and Venture TDF Technology Group. Softbank, Fidelity and TDF had been investors in Alibaba for the past four years. Granite, a Silicon Valley-based firm, joined as a new investor. The financings were led by Softbank, which remains Alibaba's second largest investor, after the management and employee shareholders of the company. The funds allowed Alibaba to continue its rapid expansion and to consolidate its position as China's largest e-commerce company. In 2008, Alibaba and Softbank collaborated to create a joint-venture company, Alibaba.com Japan, with the total investment of \$20 billion and Softbank accounting for 65 percent of the investment.

Alibaba has always been aiming to connect Chinese suppliers to global buyers. It is on the new trick of expanding abroad. The company is currently adding suppliers in India, Vietnam, Turkey, and elsewhere. Sensing the opportunities in the economic crisis, the company is expanding aggressively overseas, in the belief that as people lose their jobs, many will go into business for themselves and will want to connect with manufacturing or distribution partners worldwide. The ultimate goal of Jack Ma is to reduce Alibaba's reliance on China and turn the site into a global marketplace for importers and exporters. In 2009, Alibaba tripled its U.S. employees to around 60, and it formed a partnership with Turkey's Logo Group to reach Turkish companies. In the same year, Alibaba also signed up 1 million members in India, where it launched a partnership with media company Network18 in the previous year.

In 2010, Alibaba and Softbank planned to establish a Japan-China E-commerce partnership by creating a \$20 million joint-venture in Japan. Today, Alibaba is a truly global brand, thanks to its clear mission and the consistent collaborations with PE investors like Softbank. Jack Ma is confident in the future rapid growth of Alibaba, and its global ambitions never stop.

CASE V. Huawei Technologies Co. Ltd.

Huawei Technologies Co. Ltd. (Huawei hereafter) is a leading global telecommunications solutions provider and the largest networking and telecommunications equipment supplier in China. Established in 1988 in Shenzhen by Mr. Ren Zhengfei, Huawei is a private high-tech enterprise which specializes in R&D, production and marketing of communications equipment, and providing customized network services for telecom carriers. It serves 31 of the top 50 telecoms operators in China and puts 10 percent of revenue into R&D each year.

As Huawei expands its operations, offerings and markets globally, and possesses significant competitive resources including the vast engineering talents, it has been seeking additional funding for its international investments, especially in cross-border acquisitions. Huawei's acquisition to 3Com is an example, which both manifests the Chinese firm's global ambitions and the potential political concerns for investing overseas.

In September 2007, Huawei teamed up with Bain Capital in a \$2.2 billion deal to take 3Com Corp in an all-cash offer. The Boston-based Bain, one of the biggest private-equity firms in the world, owned a majority stake. As part of the transaction, Huawei Tech Investment Co., Ltd., a wholly-owned Hong Kong based subsidiary of Huawei, planned to acquire a minority interest in the company and become a commercial and strategic partner of 3Com. 3Com previously operated a joint venture with Huawei in China called Huawei-3Com Ltd. (H3C), but 3Com bought out its partner later. This PE

investment and the collaboration with 3Com would give Huawei a bigger foothold in the U.S. and European markets. Under the proposed deal, Bain obtained an 83.5 percent stake in 3Com and Huawei would have gotten the remaining 16.5 percent piece.

However, later there came the opposition to the proposed deal, as the companies were unable to come to agreement with the U.S. Committee on Foreign Investment in the United States (CFIUS) about security concerns. Later the companies withdrew their application to the CFIUS. The proposed deal raised security concerns because of networking giant Huawei's close ties with the Chinese government, especially the Chinese military⁴.

After the relationship ran its course when the U.S. government discouraged Bain Capital from pursuing an acquisition of 3Com, with Huawei as a minority stakeholder, 3Com bought out Huawei's 49-percent stake in H3C.

CASE VI. NVC Lighting Technology Corp.

NVC Lighting Technology Corporation (NVC hereafter) is a professional lighting company handling research, manufacturing and sales of all kinds of products. It covers the Commercial Lighting, Office Lighting, Residential Lighting, Lamps & Gear etc. Established in 1998, it has been No. 1 in Chinese lighting industry. Beside domestic market, NVC is also selling products worldwide. In 2006, NVC started promoting NVC brand in the Middle-East, Asia, Australia, Africa and Eastern Europe, etc. It aims to be a world-wide famous brand.

The private equity firm SAIF Partners first invested in NVC as early as 2006 and increased its stake in 2008 to US\$22million to become the second largest shareholder of NVC (the largest

⁴ It is said that one reason that the U.S. government agencies worry about Huawei is because its founder and CEO, Ren Zhengfei, is a former PLA officer.

shareholder is NVC's founder Wu Changjiang), with a combined investment of US\$32 million.

Goldman Sachs Group joined the second round investment. In May 2010, lead by Goldman Sachs as book runners and cornerstone investors, NVC raised US\$196 million in an initial public offering in Hong Kong.

Through the funding support by private equity and whereafter IPO, NVC has a new glowing strategy in worldwide market. Since establishing its first flagship store in Kuala Lumpur, Malaysia in 2007, NVC has been actively seeking overseas investment opportunities with a series of vertical and horizontal acquisitions and integrations, including the acquisition of several UK lighting companies and established NVC UK in 2007 with two business partners who have extensive experience and network in UK lighting industry. Such successful business model has also been applied to India, Thailand and other Southeast Asian countries. NVC is also exploring US market through the business partnership with Home Depot. Recovered from the financial crisis, NVC has speeded up its overseas expansion. Its soaring overseas business performance has given the lighting industry in China and even in the world great confidence.

CASE VII. BYD Company

BYD Co. Ltd. (hereafter BYD) is a publicly-owned, Chinese manufacturer of automobile and rechargeable batteries based in Shenzhen, Guangdong Province. The company was established in 1995 by its founder Wang Chuanfu, beginning as a rechargeable-battery factory, competing in the Chinese market against Japanese imports. Its wholly-owned subsidiary BYD Auto was created in 2003, a year after BYD's 2002 acquisition of Tsinchuan Automobile Co. Ltd., and mobile phone components were added to its product line around the same time. But the mobile phone business, BYD Electronic, was spun off in 2007. In addition, BYD also derives income from the lease of investment properties. The

name BYD is an acronym derived from the phrase “build your dreams”. BYD is currently traded on Hong Kong Stock Exchange.

As BYD grows to become a major manufacturer of automobiles and rechargeable batteries in the Chinese market, it has begun to look into the international markets and planned to expand globally. In 2006 BYD began to export its vehicles to foreign countries. It viewed one major source of capital to support its global presence is through international financial investors. Meanwhile on the other side of the Pacific, the world’s most famous investment guru, Warren Buffett, was eyeing opportunities in Asia’s emerging markets. Buffett is famous for his rules of long-term value investing style: ‘when a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is usually the reputation of the business that remains intact.’ (CNNMoney.com). Therefore when his friend at Berkshire Hathaway⁵ suggested in 2008 that they invest in BYD, believing in a good fundamental and the entrepreneur behind the Chinese company, Buffett immediately agreed the deal. They think BYD has a shot at becoming the world’s largest automaker, primarily by selling electric cars, as well as a leader in the fast-growing solar power industry. In September 2008, MidAmerican Energy Holdings, a subsidiary of Buffett’s Berkshire Hathaway Inc. invested about US\$230 million for a 10% share of BYD at HKD\$8 per share. It is said that Berkshire Hathaway first tried to buy 25% of BYD, but Wang turned down the offer. Wang wanted to be in business with Buffett – to enhance his brand and open doors in the U.S. – but he would not let go of more than 10% of BYD’s stock.

As of 2009 BYD exports its cars to Africa, South America and the Middle East. The company planned to enter the European and Israeli markets, and hopes to sell vehicles in the United States too.

⁵ Berkshire Hathaway is not a typical private equity investor, but its long term investment strategy is similar with private equity. So we include BYD’s case into this studies.

Its US headquarters are now located in Los Angeles. Currently BYD has 11 factories, eight in China and one each in India, Hungary and Romania. The company is still on the track of fast growing..

DISCUSSION

The purpose of this paper is to identify the new species in MNE zoologies, the emerging multinationals with inward-outward linkage. In seven cases, following a broad definition of organization form as the configuration of products, services, resources, and structures that define an organization as a distinct entity (Rindova and Kotha, 2001), we examine the evolution of these Chinese firms, and try to build the new theories upon the multiple cases comparison. A framework of inward-outward linkage can be shown in figure 1.

[Insert Figure 1 here]

Build global mindset and leadership

Global mindset is a critical success factor that associated with the effective management of MNEs (Levy, Beechler, Taylor, & Boyacigiller, 2007). However, it is rarely among most Chinese firms even their leaders have many ambitious global growth plans. How can these key decision makers initiate and construct the cognitive capabilities of global mindset? It is the most important step among the morphing process of outward ventures. From seven cases research, we find that private equity play an important role in helping Chinese firm to build the global mindset, in board and in top management team (TMT).

In previous research, some scholars find that outside directors in public firms are replaced by individuals employed by the private equity sponsors in many cases of private equity deals, and that private equity board members are more involved in board (Cornelli and Karakas, 2008). Private equity investor also acts as a “coach” to professionalize start-up firms (Hellmann and Puri, 2002). In our

inward-outward linkage perspective, we also find that directors appointed by private equity are active in Chinese firms' board. For example, Bill Amelio was Lenovo's first CEO after Lenovo acquired IBM's PC business in 2005. In a media interview⁶, Amelio described his dealings with Lenovo's outside directors from a variety of professional backgrounds and two private equities:

...A lot of them want to talk about the long term, but simultaneously, they want to talk about short-term results. Make sure we have a dividend that gets paid, make sure you are able to return the profits that you've committed to the business -- even in a downturn. Then the discussion is, "Yes, we understand there's a longer, bigger issue that's happening inside." Then there's a discussion, of course, of, "Yep, the global economy is affecting all businesses, including yours." So there's an understanding of that. But yet there's a sense of urgency that says, "What are you going to do, as a CEO, to make sure that we come out of this much more effectively than any other competitor does?" So, I think it's a healthy tension. I call it a bit of a "schizophrenic" [situation], but it's a healthy tension that creates thinking about the long term as well as making sure you don't forgo the short term ...

Private equity likes to adjust their board representation based on the anticipated challenges in the investments (Cornelli and Karakas, 2008). Although three private equity companies hold just over 10% of the ownership in the Lenovo, they appointed 3 directors (more than 33% of the board) (Ackerly and Larsson, 2005). Similarly, David Sokol, Chairman of a Berkshire-owned utility company called MidAmerican Energy, sits on BYD's board, and encourages BYD to become a battery supplier to global automakers.⁷ Through changing the director composition and creating the discussion tension in the board, private equity can build the cognitive capabilities of global mindset in Chinese firms, improve their awareness, capability and motivation to react to foreign entry and threatens (Chen, Su, & Tsai, 2007; Meyer and Sinani, 2009), then promote their outward ventures. Thus,

Proposition 1a Inward private equity likes to change the composition of invested company's board, and improve its capability in critical decision making in international venture.

⁶ See Knowledge@Wharton, 2009, Bill Amelio talks strategy before departing as Lenovo CEO

(<http://knowledge.wharton.upenn.edu/article.cfm?articleid=2158>)

⁷ Gunther M. (2009), Warren Buffett takes charge, Fortune, April 13.
http://money.cnn.com/2009/04/13/technology/gunther_electric.fortune/

At the same time, private equity like to deeply monitor the performance of top management team (TMT). Previous research find that CEO turnover is higher in the firms backed by private equity funds than in public firms during the restructuring process (Cornelli and Karakas, 2008). In our seven cases, we also find the similar pattern. For example, in February 2009, Amelio was replaced by the Chinese chairman of the board, Yang Yuanqing, who had been Lenovo's CEO before the arrival of Amelio in 2005. In other words, after Yang moved his home to US, and gained the international experience with Amelio, board choose the Yang stepped back into the CEO role during the particularly challenging time of global financial crisis.

Private equity also provides value-added services such as introducing new compensation plans, hiring new talents in TMT, and formulating human resource policies. Private equity more likely to use ownership's incentive function as the *ex ante* mechanism in alleviating the contract hazards (Grossman and Hart, 1986). In Geely's case, while Goldman Sachs was investing about \$250 million to fund the Chinese auto maker's growth ambitions, Geely also changed its composition in TMT. Peter Zhao, a financial controller from BP with internationally experience, was in charge of the M&A deal with Volvo. Dr Frank Zhao, Geely's VP and chief tech officer, spent nine years in Detroit teaching engineering at Wayne State University before joining Chrysler in 1997. He returned to China in 2004, and joined Geely in 2006. He convinced Li to invest at least 8% of Geely's revenue in product development, and tripled the number of engineers to 1,200. Thus,

Proposition 1b Inward private equity likes to support the manager in TMT with oversea experiences, and improve their management capability in international venture.

Configure Resources

Private equity likes to improve the incentive for invested firms, and maximize their efficiency and

value in order to guarantee a profit. Thus, Haarmeyer (2008) called it “capitalism's misunderstood entrepreneurs and catalysts for value creation”. We also find the similar catalysts of value creation within private-equity-invested Chinese firms, especially in resource reconfiguration and management internationalization.

First, following Sirmon, Hitt, & Ireland (2007)'s value creation model, we find that private equity likes to restructure Chinese firms' resource portfolio. For example, after injected large amount of capital, Hony Capital helps Zoomlion to acquire CIFA, a leading Italian concrete machinery. CIFA's strong international brand and innovative technology become the critical resource in the internationalization of Zoomlion. We also find the similar role of resource acquisition in TPG, GA/Lenovo case in the M&A of IBM's PC division, Goldman Sachs/Geely case in Volvo deal, and Bain/Huawei case in 3Com deal.

Second, we find that private equity likes to re-bundle resources for Chinese firms in outward venture. Based on the foreign market entries of 1,010 U.S. venture capital firms, scholars find that private equity's social status advantage is transferable from one market to another as a signal of quality (Guler and Guillen, 2010a). The reputation of private equity can endorse Chinese firms in international venture, legitimize their position in new market (Yamakawa, Peng, & Deeds, 2008), and increase foreign partner alliance opportunities to overcome the liability of foreignness (Johanson and Vahlne, 2009) . In our case studies, we also find that Chinese firms, through associating with high prestige private equity, have been shown to enhance the resource flows into new ventures. For example, Softbank helped Alibaba.com to penetrate the unfriendly Japan e-commerce market. In the case of Geely, while it provided first offer to Ford Motor on buying the Volvo in 2008, Ford's manager suspected Geely's capability in closing the deal and integrating Swedish brand. After

Goldman Sachs invested about \$250 million in Sept., 2009, Geely soon reach the agreement with Ford to buy Volvo for \$1.8 billion in March 2010. Thus, inward-outward linkage will improve Chinese firms' reputation, and influence and enhance firm's capability in making strategic alliances and M&As in the business ecological system.

Third, we find that private equity can help Chinese firms to mobile, coordinate, and deploy resources. The success of international venture relies on that firm can control over unique resources, and leverage them to exploit new opportunities (Autio, 2005). In our case studies, Berkshire Hathaway helped BYD to open first office in California.⁸ BYD was given nearly \$1 million from Los Angeles City, and free product placement at the Los Angeles International Airport. Berkshire Hathaway also showed BYD's electric car in its annual shareholder meeting in 2009. It owned an electricity grid in the American Midwest. MidAmerican Energy, the subsidiary of Berkshire Hathaway could build the charging stations while BYD could manufacture the electric cars. Under Buffet's endowment, Daimler AG have operated a joint venture company with BYD in Shenzhen since 2010. The new firm was named Daimler New Technology Company and focuses on electric vehicle development and up-market sedans. Thus,

P2 Inward private equity likes to reconfigure the resource of invested company, and leverage the capability to exploit new opportunities in oversea market to create and capture more value.

Change Competitive Dynamics

Following Porter (1980)'s five forces framework, the threat of entrants always change the industry competitiveness. As a mighty new entrant, the emerging Chinese MNE backed with inward private

⁸ Willon, P. (2010) California (BY)Dreaming? Los Angeles Times. April 29.
<http://latimesblogs.latimes.com/lanow/2010/04/more-details-emerge-on-chinese-car-companys-arrival-in-los-angeles.html>

equity will dramatically alter the competition landscape. For example, before acquiring IBM's PC division, Lenovo was a local player, only defending its domestic market share from HP and Dell. After the acquisition, Lenovo could compete head-to-head with HP and Dell in its main market-U.S. market. At the same time, Lenovo could improve its economies of scale through creating cost synergies of \$150-200 million a year on procurement savings alone, such as getting better pricing on Intel chips (Ackerly and Larsson, 2005).

Thus, Chinese firms with inward private equity will alter the competitive dynamics – actions and responses undertaken by competing firms. Drawing on the awareness-motivation-capability perspective (Chen et al., 2007), how the incumbent MNEs (especially DE MNEs) perceive competitive tension from the altering global competition landscape is influenced by the independent and interactive effects of three factors: relative scale, Chinese firms' attack volume, and their capability to contest. For example, after Huawei and Bain Capital withdrew the application for the \$2.2 billion acquisition bid to 3Com on CFIUS in 2008, HP found the value of 3Com with a \$2.7 billion. HP had a special weight on the H3C, the former joint venture between 3Com and Huawei in the acquisition, and believed it would "significantly strengthen the company's position in China -- one of the world's fastest-growing markets -- via the H3C offerings. In addition, HP believed the combination could add a large and talented research and development team in China that would drive the acceleration of innovations to HP's networking solutions."⁹ Both Huawei's attack and HP's counterattack would affect the industry structure among Cisco, EMC, NetApp, the rest of the networking infrastructure companies. Thus,

P3 Inward private equity likes to reframe the industry structure and alter competitive dynamics.

⁹ HP New Release, Nov. 11, 2009. <http://www.hp.com/hpinfo/newsroom/press/2009/091111xa.html>

Internationalization Speed

Previous international entrepreneurship literature focuses on the "born-global" firms (firms that internationalize virtually from their inception) (Oviatt and McDougall, 1994), but widely ignores the revitalized firm in internationalization. Early pursuit of international opportunity induces greater entrepreneurial behavior and confers a growth advantage, while old firm is difficult to change the organization routine in seeking international growth (Autio et al., 2000). However, inward-outward linkage is likely to shape the strategic choices of board and TMTs (P1a and P1b), while private equity acts as the new owners and stimulate a firm's entrepreneurial activities. Chinese firms backed by private equity are likely to lead to changes in the old organizational templates (Johnson, Smith, & Codling, 2000) and in taken-for-granted routines (Newman, 2000), then go international even at an related old age.

For example, to finance IBM PC division's deal, Lenovo looked for private equity partners who could "...offer expertise and experience that are expected to be valuable to the Company" in its global expansion¹⁰. In BYD's case, although it BYD began to export its vehicles to foreign countries in 2006, only after it got new capital injected by Berkshire Hathaway, its internationalization speed up. It did not only export its cars to Africa, South America and the Middle East in 2009, but also planned to enter the European and Israeli markets, and built a beachhead in the United States. Thus,

P4a Internationalized PEs will speed up invested company' internationalization.

¹⁰ Lenovo, December 31, 2004, *Circular; Very Substantial Acquisition Relating to the Personal Computer Business of International Business Machines Corporation*, Hong Kong Stock Exchange, p. 149, p. 2.

Location: Shorten institution distance

Uppsala process model proposes that psychological distance, such as differences in language, education, business practices, culture, and religion (Johanson and Vahlne, 1977), and liability of foreignness and outsidership to the relevant network (Johanson and Vahlne, 2009) will burden firms in internationalization. Follow this model, MNEs are likely to increase their internationalization through gradually accumulating, integrating and learning knowledge of foreign markets. In the location choice, Bartlett and Ghoshal (2000) suggest that EE MNEs first enter the smaller markets where DE MNEs are not yet well established. Through such incremental process, only after EE MNEs accumulate enough knowledge of foreign markets and overcome the barriers from cultural, technological, economic, and institution distances, EE MNEs can enter the developed countries (Sun, 2009). However, inward-outward linkage changes this location entry sequence. Because inward private equity investors usually have a high reputation and experience in developed countries (Guler and Guillen, 2010a), they can endorse Chinese firms enter these countries fast, and their network in local business community and political circle can mitigate high institution distances which might burden Chinese firms with limited knowledge. In seven cases, these seven companies all treat developed counties as main target markets. Thus,

P4b Inward private equity will help invested company to locate more outward ventures in developed economies.

Market Entry strategy

To overcome the burden of liability of foreignness, firms usually follow the sequence of entry modes

from exports to minority joint ventures (JVs), then to majority JVs or M&As. Through this way, they learn from early entries and adapt the modes of subsequent entry (Chang and Rosenzweig, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009). However, endowed by private equity, Chinese MNEs can skip several earlier modes of entry and be active in complex and challenging transactions, such as cross-border M&As. How is this inward-outward linkage rewriting the rules of M&As?

First, private equity can bring credibility in the negotiation table, and help Chinese firm to reduce cash paid in M&A deal. For example, in the original deal arrangement without private equity, Lenovo would pay the consideration in US\$600 million of equity and US\$650 million in cash, resulting in an 18.9% ownership in the new entity for IBM. After private equity involved, TPG and GA paid cash US\$350 million to IBM and exchange convertible preferred equity (equal to 10.24% of Lenovo), Lenovo only paid IBM approximately US\$450 million in cash and common shares valued US\$450 million (8.8% of Lenovo) (Ackerly and Larsson, 2005).

Second, private equity can deliver crucial expertise in mitigating financial, operational and cultural risks involved in a complex M&A deal (Cornelli and Karakas, 2008). Chinese firms have limited experience in such large scale of M&As. However, in Lenovo' deal arrangement, private equity helped to separate IBM PC division from its parent on the intricate relationship. A series of agreements are signed to meet the requirement from private equity, such as *Transitional Services Agreement*, *Strategic Financing and Asset Disposition Services Agreement*, *IGS Services Agreement 39* and the *Marketing Support Agreement*, *Internal Use Purchase Agreement* (Ackerly and Larsson, 2005). In the similar case of Geely, because Volvo was fully integrated with Ford global platform, it relied on M&A expertise to close the deal.

Third, private equity can help Chinese firms to mitigate institutional barriers in market entry. The

institutional barriers means the entry restrictions from institutions, such as legal restrictions on ownership (Shimizu et al., 2004). Foreign governments sometimes adopt restrictions to protect domestic owners from outsiders based on the ownership. Previous research finds that firms entering markets with high legal restrictions or high institutional distance tended to use joint ventures as the preferred entry mode (Sun, 2009). However, private equity can leverage its ability on lobbying and political influence to help Chinese new entrant. In our case studies, Huawei allied with Bain Capital to bid 3Com, because Huawei estimated the high institutional barriers in the U.S. market. Although this deal failed because it could not pass through CFIUS's investigation, another case's success (Lenovo/IBM PC) still shows that inward-outward linkage increases the capability of Chinese MNEs to overcome the institutional barriers.

Forth, inward-outward linkage increases the attractions of buyers in M&As and the possibility of post-M&A integration success. From M&A sellers' perspective, they are also more likely to be acquired by gorgeous buyers who offer synergistic combination potential and organizational rapport with the long-term interests (Graebner and Eisenhardt, 2004). Private equity can win more points in such acquisition as courtship, and indicate joint decision making with some common goals with seller, and treat post-M&A corporate governance as a syndicate (Gurung and Lerner, 2008). From the cases of Geely on Volvo, Zoomlion on CIFA, Lenovo on IBM PC division, we also find that Chinese MNEs prefer to friendly M&A to achieve the goal in learning acquired partner's technologies, avoiding overturning management structures and teams, and ensuring better integration of the resources (Kumar, 2009; Zollo and Meier, 2008). Thus, inward private equity and Chinese outward venture share same interests. Chinese MNEs can smoothly integrate their comparative ownership advantage (Sun et al., 2010) with the sellers in post-M&A transition. Thus,

P4c Inward private equity will improve invested company's capability in complex entry modes, especially cross-border M&As.

CONTRIBUTIONS AND IMPLICATIONS FOR FUTURE RESEARCH

As the first paper in developing the inward-outward linkage perspective, this research promotes interdisciplinal dialoge among the theories of international entrepreneurship, MNEs, resource-based view and organization form, and at least has three kinds of contributions.

First, we find a new driving force behind Chinese firms' outward investment and venture. We extend the international entrepreneurship into reviterlised firms – Chinese emerging MNEs backed with plobalized private equity. Child and Rodrigues (2005: 381) suggest that the Chinese internationalization case offers “an opportunity to extend present theorizing in four primary areas concerning the latecomer perspective and catch-up strategies, institutional analysis with reference to the role of government, the relations between entrepreneurs and institutions, and the liability of foreignness”. Our inward-outward perspective integrates different streams of related literature, and connects globalization in a wider business system with a micro process of variety generation and experimentation within and across individual firms – the morphing process called in this paper.

Second, we provide a novel perspective which helps the international business field to tackle a new species of MNE. Indentifying inward-outward linkage venture of emerging MNEs in zoologies also contribute the literature of organization theory. Traditional theory suggests that organization form change happens when organization reconfigures the resources, capabilities, and structures to deal with rapidly changing environments (Rindova and Kotha, 2001). Our inward-outward perspective argues that ownership change, especially invested by prestigious globalized private equity, will revitalize firm's

outward venture activities, not only in dynamic environments. The emerging of this new species of MNEs is also important to understanding the interrelationships between MNE activities and public policy (for example, in Huawei' case on bidding 3Com).

Third, we extend the resource-based view to incorporate the resource linkage of (inward-outward) interconnected firms. Traditional resource-based view suggests that most valuable resources from internal organization are nontransferable (Barney, 1991). Mathews (2006) argues that EE MNEs as latecomers can accelerate internationalization, innovate strategy and organization through inter-firm linkage, leverage, and leaning. Extend this view, we suggest inward private equity does not follow the internalization pattern of traditional MNEs (Dunning, 1980), but mobile the resource such as reputation and credits into Chinese emerging MNEs. Certainly, how this reputation effects are transfer and mobile among inter-organizations, and how this intangible capitals help latecomer to gain legitimacy in foreign market are worth to research further.

Managerial implications

Followed our inward-outward linkage perspective, EE MNEs can improve their design of internationalization strategies through allying with inward private and leveraging their resource in DE market. With this help, they can accelerate the speed of internationalization, and boldly deal with complex cross-border M&As as a primary mode of market entry.

DE MNEs as incumbents to have a better understanding of the changing competitive dynamics under this new species of competitor in global market. They need to know that how this emerging MNE alters the global competitive landscape, and how these new players drive industry growth and deconstruct the value chain. These incumbents must aware new threatens, re-assess their industry's vulnerability, make new alliance partners, and adapt the new market structure when the emerging new

entrants change interfirm rivalry.

Future Research

Is our inward-outward linkage perspective applied for MNEs from other emerging economies? As emerging economies become the new engines of world economic growth, private equity investors are rushing in.¹¹ For example, total private equity investment in India increased 1,773% between 2004 and 2007, from \$1.1 billion to \$19.5 billion.¹² Whether our perspective is context specific only to reflect the particular institutional environment of single country's MNEs from China is worth to examine its generalizability. For example, Between 1999 and 2001, Warburg Pincus made a series of investments totally nearly \$300 million in Bharti Tele-Ventures, a relatively small Indian telecoms company (Gurung and Lerner, 2008), and support its growth from a mid-sized local player into the 5th largest mobile operator in the world, operated in 3 countries in the Indian Subcontinent and 16 countries in Africa. If the strategies of this inward-outward linkage are further approved in this interlinked global economy, it will pave the new catch-up way of EE MNEs which lack substantial prior resource bases (Mathews, 2006).

Another interesting unanswered question in this paper is firm ownership and inward-outward linkage. All these seven firms in our cases studies are private-owned firms, not SOEs. Why inward private equity is more likely to clinger to private-owned firm than SOEs in outward venture, although Chinese SOEs could get more government support (Sun et al., 2010)? A possible answer comes from Dalip Pathak, Managing Director of Warburg Pincus. He said in Indian Bharti Tele-Ventures: "At Warburg Pincus, we don't invest in a company unless the entrepreneur has a predisposition to openly

¹¹ Although emerging economies now have more domestic private equity, in this article, "private equity" refers to international private equity (included venture capital), and "entrepreneur" refers to local entrepreneur.

¹² Dolbeck, A. (2008) Private Equity in the Global Arena, Weekly Corporate Growth Report, June 2. and Gurung & Lerner (2008).

work with us” (Fang and Leeds, 2008). Further research on why SOEs are difficult to apply the inward-outward linkage will strengthen our understanding of this important phenomenon.

CONCLUSION

Ackerly and Larsson (2005: 25, added italics) argued: “(a)s a result of these collective efforts, Lenovo’s acquisition of IBM’s PC division may come to be viewed as a watershed that not only forever changed Western views about China’s economic ambitions and but also opened an era of *significant cross border partnerships* that will fuel the continued economic integration of China and the West.” Truly, our inward-outward linkage perspective shows the new pattern of globally interfirm connections and new driving force of internationalization.

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Figure 1 The Inward-outward Link Perspective

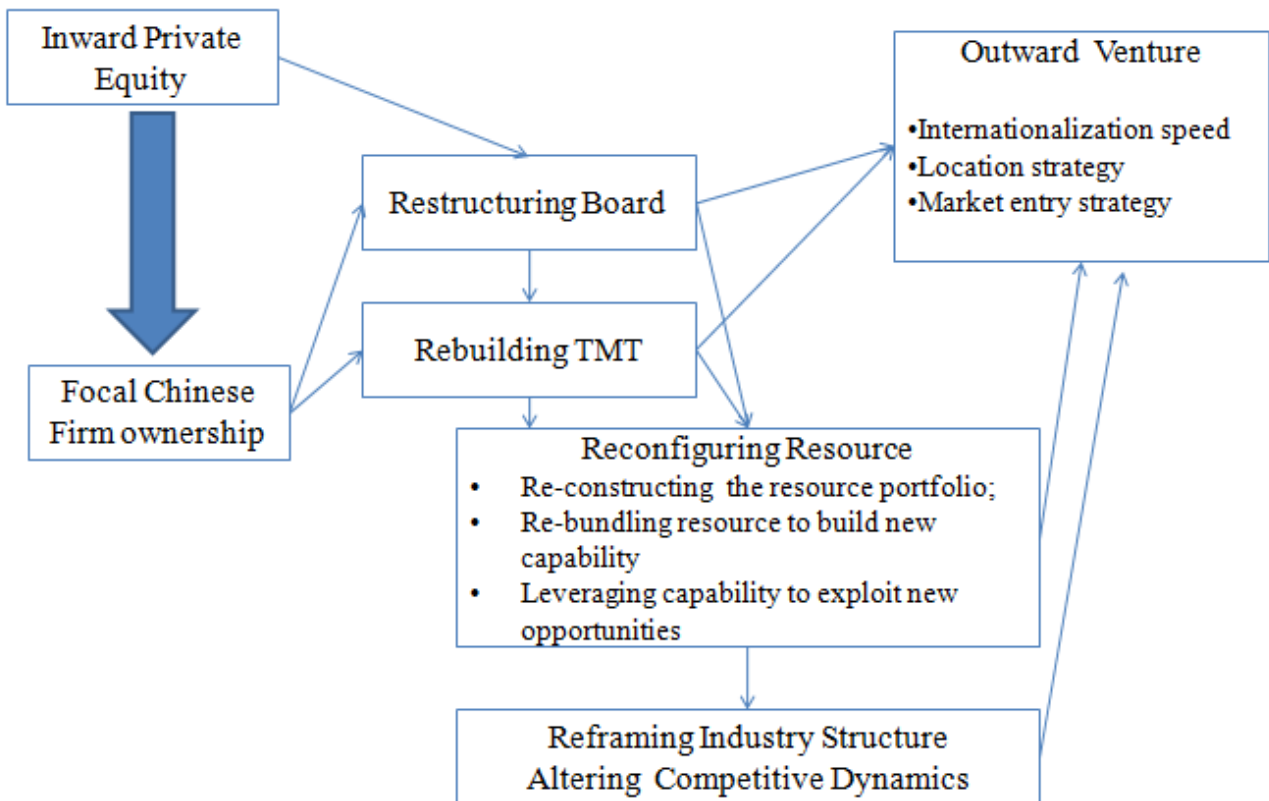


Table 1 The Summary of Seven Cases

Invested firm	Starting year	PE	PE investing time	Corporate governance change	Overseas investment time	Overseas expansion performance
Lenovo Group	1988	Texas Pacific Group (TPG), General Atlantic (GA), Newbridge	2005	TPG (including Newbridge) and GA obtained 12.4% of Lenovo shares.	May 2005	Lenovo has enhanced its global reputation presence after acquiring IBM's PC business. But it also encountered severe integration problems.
Zoomlion	1992	Hony Capital, Goldman Sachs, Mandarin Capital Partners	2003, 2006, etc.	Hony Capital obtained 26% of Zoomlion shares.	Sep 2008	Zoomlion combined CIFA's strong international brand and innovative technology with its own domestic market position to expand globally.
Geely Auto	1986	Goldman Sachs	2009	Goldman Sachs obtained 15% of Geely shares.	Mar 2010	With Goldman's investment, Geely's acquisition of Volvo has just been approved in July 2010. This allows Geely to enter the high-end brand market.
Alibaba.com	1999	Softbank, Goldman Sachs, Fidelity, etc.	2000, 2004, etc.	Softbank holds for 33% of Alibaba shares.	2008 (Japan), 2009 (U.S.), etc.	Alibaba has kept on growing rapidly, with the new plan of establishing a Japan-China e-commerce partnership with Softbank.
Huawei Technologies	1988	Bain Capital	2007	Bain Capital obtained 83.5% of the acquired 3Com company shares while Huawei obtained the rest of 16.5% shares.	Sep 2007	The 3Com deal was rejected by CFIUS due to political concerns.
NVC Lighting	1998	SAIF Partners, CITIC Securities, Goldman Sachs, etc.	2006	SAIF 23.41% (previously 30.73%); Goldman Sachs 7.15% (previously 9.39%), after IPO offering.	2007 onwards.	With the PE investment, NVC is expanding rapidly into the global markets with presence in SEA, UK, US, etc.
BYD	1995	Berkshire Hathaway	2008	Berkshire Hathaway obtained 10% of BYD shares.	2009 onwards	BYD's exports and establishment of overseas subsidiaries have been greatly boosted with Buffett's investment.