What is “strategic asset seeking FDI”?

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Abstract

Purpose – The purpose of this paper is to shed more light on the concept of “strategic asset-seeking FDI”, which is frequently used in discussion of emerging economy multinational enterprises (MNEs), but it is challenged by some scholars. The author argues that he needs this category because an important type of foreign direct investment (FDI) is not captured by the other motives identified by John Dunning, namely, market-, efficiency- and natural-resource-seeking FDI.

Design/methodology/approach – The author illustrates the phenomenon of strategic asset-seeking FDI with case examples that form the starting point for his theoretical arguments.

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

Originality/value – The author concluded that Dunning’s typology remains a powerful tool to analyze contemporary business strategies, but it suggests refining the definition of the categories.

Keywords Capability-building, Foreign direct investment, Resource augmentation, Resource exploitation, Resource exploration, Strategic asset-seeking

Paper type Viewpoint

Introduction

The identification and classification of investment motives is important for foreign direct investment (FDI) research because the objectives of an action determine how the performance should be assessed. For example, if an FDI project is undertaken in pursuit of foreign markets, then the performance may be assessed by the market share in the relevant markets or by the financial performance of the subsidiary. If the objectives relate to efficiency, then the performance assessment will focus on indicators of productivity and costs. If the objectives relate to natural resource-seeking, then the costs and stability of the sought inputs would be appropriate performance indicators. But what is strategic asset-seeking FDI, and how can we tell if a firm has been successful in its strategic asset-seeking FDI?

First proposed by John Dunning (Dunning, 1993; Dunning and Narula, 1995), the concept of strategic asset-seeking has recently been used by several authors to describe FDI by emerging economy multinational enterprises (MNEs), specifically to highlight what appears unconventional about some of their FDI projects (Deng, 2009; Rui and Yip, 2008; Cui et al., 2014). Strategic asset-seeking is one of four categories of FDI motives, the others being market-, efficiency- and natural resource-seeking (Table I). However, the

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<th>FDI motives</th>
<th>Description</th>
<th>Performance indicators</th>
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<tr>
<td>Market-seeking</td>
<td>To sustain or protect existing markets (by circumventing trade barriers), or to exploit or promote new markets, typically in the host country</td>
<td>Market share in the host country, financial performance of the subsidiary (after controlling for possible transfer pricing)</td>
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<td>Efficiency-seeking</td>
<td>To enhance economies of scale and scope, logistics infrastructure, and risk diversification</td>
<td>Productivity of the whole organization, costs of critical organizational processes</td>
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<td>Natural resource-seeking</td>
<td>To secure stable, low-cost and high-quality supply of natural resources, such as minerals, oil and gas or agricultural products</td>
<td>Costs of inputs (relative to market prices), stability of supply</td>
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<tr>
<td>Strategic asset-seeking</td>
<td>To enhance the capabilities of the acquiring firm in view of long-term competitiveness in home and third-country markets</td>
<td>Upgrading of technology in parent organization, Organizational change in parent organization, Acquired firms products or brands successfully sold outside host country</td>
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**Source:** Column 1 is based on Cui *et al.* (2014)
concept lacks consistent usage and interpretation, and some may even suggest it would be redundant.

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

Critiques of the concept
Two lines of theoretical argument suggest that the concept of strategic asset-seeking is, in fact, redundant because all FDI projects can appropriately be captured by the other three categories. The first line of argument is based on theories of FDI that (implicitly or explicitly) assume that the purpose of FDI is to exploit the firms’ resources (or firm-specific advantages) overseas. This assumption was central in Vernon’s (1966) product life-cycle model of FDI. Although most contemporary scholars recognize that Vernon’s model explains a pattern that was specific to the economic conditions of the post-World War II world (i.e. the economic dominance of the USA), some scholars implicitly still make that assumption. For example, Rugman and Nguyen (2014, p. 54) argue:

Dunning made the unfortunate theoretical mistake of adding a fourth motive for FDI: asset seeking (sometimes called strategic asset seeking). This is a motive which is inconsistent with the OLI framework, which builds upon MNEs developing FSAs based on their home country where home CSAs matter. With asset seeking, the MNE subsidiary somehow needs to acquire knowledge assets owned by foreign MNEs in their own patch […]. Well good luck to these subsidiary managers. Somehow, they need to acquire (steal) FSAs from strong rival MNE parent firms. They shall seek but they shall not find.

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

The second critique arises from confusion as to what is actually meant by the concept. The strategic objectives of a firm are often stated in terms of market positions that a firm wants to achieve (Porter, 1998). Therefore, any acquisition of an asset that substantially advances a firm toward achieving its aspired market position is “strategic”. Similarly, an acquisition may enhance a company’s supply base or production operations, and thereby help the company get closer to its strategic objectives. In the Porterian sense, these are all “strategic” acquisitions. When used in
this way, the concept of strategic asset-seeking FDI becomes essentially synonymous with “foreign acquisition”, and overlaps with the other three concepts. Thus, it would not constitute a distinct category, and, therefore, it is not helpful to clarify FDI motives. This interpretation is consistent with the original wording of Dunning’s definition. In his original work, Dunning (1991, p. 135) describes strategic asset-seeking as “to create or gain access to resources and capabilities that complement their existing core competencies” (Table II). However, the subsequent literature has developed definitions that focus on the impact of those assets on the MNE itself beyond the scope of the foreign operation. Such a specific definition has also been used in studies co-authored by Dunning himself; Dunning and Narula (1995) refer to the competitive advantage of the investing firm, other authors refer to “advancing global competitiveness” as distinct from local competitiveness (Dunning and Lundan, 2008; Cui et al., 2014).

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

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

**Emerging economy MNEs: case illustrations**

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

The Indian Tata Group made a series of acquisitions of technologically advanced but financially struggling businesses in the UK, namely, Corus Steel, Tetley Tea and Jaguar Land Rover. These acquisitions do not fit any of the three traditional motives because their primary aim is neither to sell Indian products in Europe nor to reduce costs of
Table II.

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<thead>
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<th>Authors</th>
<th>Empirical field</th>
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<th>Definition</th>
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<tr>
<td>Dunning (1991)</td>
<td>Theoretical analysis</td>
<td>Strategic asset-seeking FDI</td>
<td>“To create or gain access to resources and capabilities that complement their existing core competencies” (p. 135)</td>
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<td>Kogut and Chang (1991)</td>
<td>Japanese FDI in the USA</td>
<td>Technology seeking FDI</td>
<td>“The seeking of new technologies resident in the USA” (p. 401)</td>
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<tr>
<td>Dunning and Narula (1995)</td>
<td>FDI in R&amp;D units (theoretical)</td>
<td>Strategic asset-seeking R&amp;D</td>
<td>“R&amp;D activities [. . .] aimed at monitoring or acquiring competitive advantages – particularly in the technology and information-intensive sectors – which are complementary to those already possessed by the MNE” (p. 42)</td>
</tr>
<tr>
<td>Chung and Alcacer (2002)</td>
<td>Inward FDI in the USA</td>
<td>Knowledge-seeking FDI</td>
<td>“Expand abroad in search of capabilities that are not available in their home countries” (p. 1534)</td>
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<td>Makino et al. (2002)</td>
<td>Taiwan outward FDI</td>
<td>Asset-seeking FDI</td>
<td>“To acquire strategic assets (i.e. technology, marketing and management expertise) available in a host country” (p. 404)</td>
</tr>
<tr>
<td>Ivarsson and Jonsson (2003)</td>
<td>Inward FDI in Sweden</td>
<td>Asset-seeking FDI</td>
<td>“To augment [. . .] existing global technological competitive advantages through a feedback of information and by tapping into the knowledge generated by other forms or non-market institutions in host countries” (p. 370)</td>
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<tr>
<td>Dunning and Lundan (2008)</td>
<td>Theoretical analysis</td>
<td>Strategic asset-seeking FDI</td>
<td>“To promote their long-term strategic objectives – especially that of sustaining or advancing their global competitiveness” (p. 72)</td>
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<td>“To augment the acquiring firm’s global portfolio of physical assets and human competences, which they perceive will either sustain or strengthen their ownership-specific advantages or weaken those of their competitors” (p. 73)</td>
</tr>
<tr>
<td>Luo and Tung (2007)</td>
<td>Emerging economy outward FDI</td>
<td>Springboard FDI</td>
<td>“To acquire strategic assets needed to compete more effectively against global rivals and to avoid the institutional and market constraints that they face at home” (p. 482)</td>
</tr>
<tr>
<td>Deng (2009)</td>
<td>Chinese outward FDI</td>
<td>Strategic asset-seeking FDI</td>
<td>Obtaining and controlling strategic assets “defined as the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that bestow the firm’s competitive advantage” (p. 75)</td>
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<th>Authors</th>
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<tr>
<td>Rui and Yip</td>
<td>Chinese outward FDI</td>
<td>Strategic intent perspective of FDI</td>
<td>“To achieve specific goals, such as acquiring strategic capabilities to offset their competitive weakness and leveraging their unique ownership advantages while making use of institutional incentives and minimizing institutional constraints” (p. 214)</td>
</tr>
<tr>
<td>Li et al. (2012)</td>
<td>Chinese outward FDI</td>
<td>Knowledge-seeking FDI</td>
<td>“FDI that is geared [. . .] to augmenting firm-specific advantages through acquisition or partnering arrangements with local firms” (p. 278)</td>
</tr>
<tr>
<td>Cui et al. (2014)</td>
<td>Chinese outward FDI</td>
<td>Strategic asset-seeking FDI</td>
<td>“To pursue long-term strategic objectives – especially that of sustaining or advancing global competitiveness” (p. 490)</td>
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existing operations or to source natural resources. In fact, the acquired firms were barely operationally integrated with older units of the group. These acquisitions were primarily motivated by Tata’s ambition to build managerial competencies, for example, in the management of international acquisition processes and in the management of luxury brands (Bajaj, 2012; Gribben, 2015). Thus, the main objectives underlying Tata’s investment relate to building the capabilities of the Tata Group, with a long-term view as to how these capabilities would enhance the group’s competitiveness globally.

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

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

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

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

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

This insight may be less surprising to strategy scholars than those thinking in terms of Rugman’s FSA/CSA framework. Strategy research has long recognized both resource exploitation and resource augmentation (i.e. development or exploration) as motives for firms’ strategies (March, 1991). Organizations learn through the activities they engage in; some activities aim primarily for short-term exploitation motives, while others primarily aim for resource augmentation to enhance their competitive advantage in the long run. FDI creates new activities; the only difference is that these activities are abroad. Hence, for strategy scholars, it is natural to think of FDI projects as combining elements of resource exploitation and resource augmentation (Luo, 2002; Meyer et al., 2009; Teece, 2014). My reading of Dunning’s work suggests that he was very much aware of the exploration and exploitation dimensions of FDI, and, therefore, saw a need to create a category capturing FDI projects that pursue primarily exploration motives. Thus, the category of strategic asset-seeking FDI describes an important type of FDI that is not captured by the other three motives. The label strategic asset-seeking FDI may not be well chosen; perhaps “knowledge seeking” (Chung and Alcacer, 2002; Li et al., 2012), “asset augmenting” (Narula and Zanfei, 2004) or “resource augmenting” (Meyer et al., 2009) capture the essence of the category better. However, I am not concerned what to call this category. The important point is that the category exists, and that it is very important for some firms. Hence, to advance our understanding of FDI, we need:

- theoretical frameworks that recognize that FDI projects typically combine resource exploitation and resource augmentation;
- theories that explain why some firms undertake FDI projects with the primary purpose of augmenting their resources and capabilities rather than to exploit their existing resources; and
- assessments of FDI projects that reflect the underlying motives, and hence use performance indicators that are aligned with the motives.
References


Further reading


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