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# Upgrading of EMNEs' acquired subsidiaries in developed countries: an unintended consequence of strategic asset-seeking OFDI?

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# Foreign takeovers in Britain

- “I think there’s every reason to be worried. Very often the R&D goes abroad and the rest follows ... It’s a recipe for disaster and a slow hollowing out of our industrial base here.”  
(Bob Bischof, vice-president of German-British Chamber of Industry and Commerce, FT 9/2/2013)

# Research question

- EMNEs and their rapid internationalisation
- But, what is the impact of EMNEs' OFDI on businesses in the host countries?
- To what extent EMNEs' acquisition in developed countries could lead to capability upgrading in the acquired subsidiaries and why?

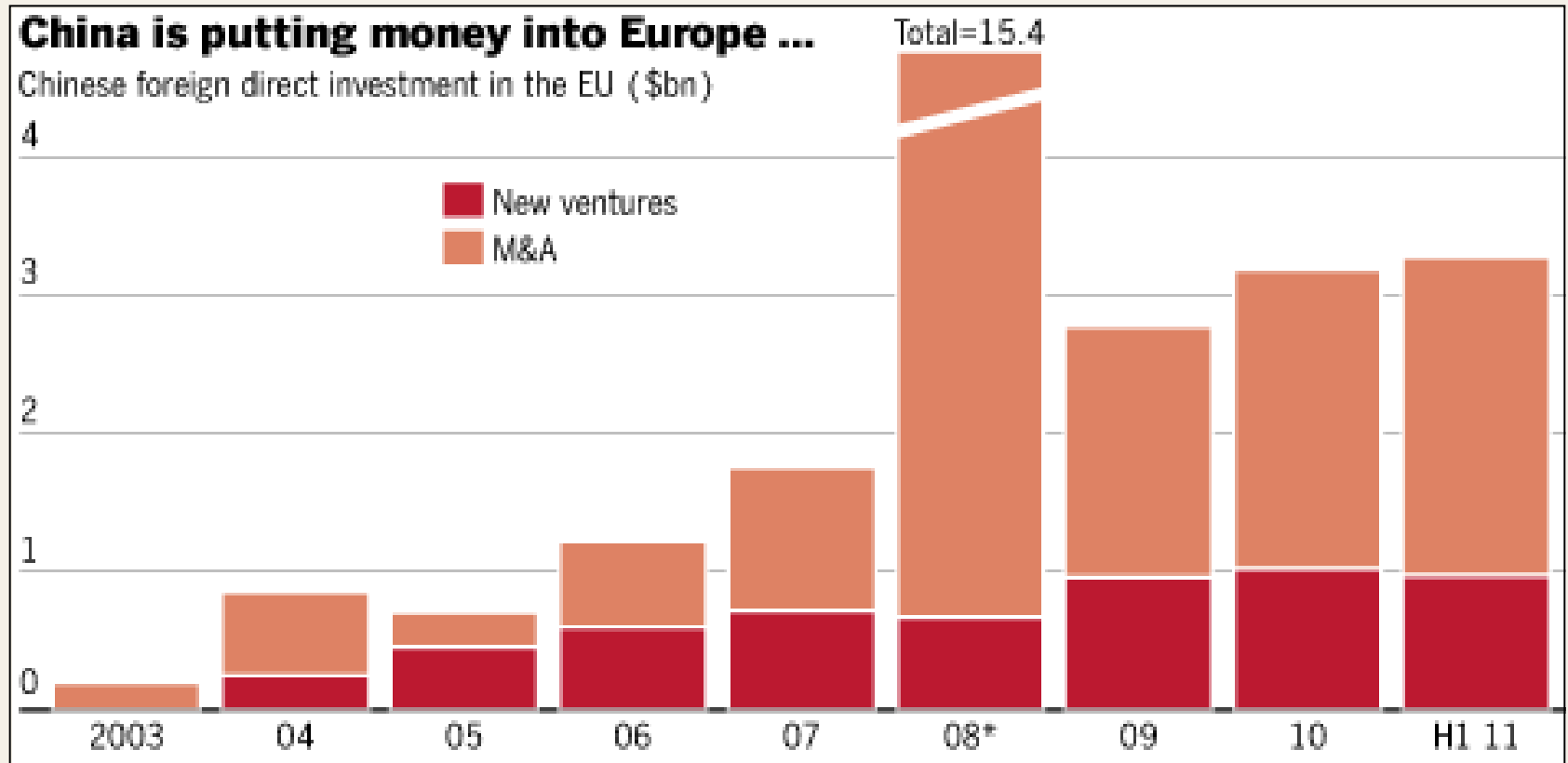
# The extant literature

- Internationalisation of EMNEs
- Impact studies: all dominated by discussions of impact of DMNEs
  - Subsidiary evolution
  - Knowledge transfer
  - Global value chains

# This study

- Case study approach
- Based on secondary data

# Chinese OFDI in the EU



Source: Financial Times 2012

# British firms



# Chinese Acquirers





# Dynex and Times Electric

- A transformational acquisition
- Times Electric: mainly engaged in research, development, manufacture and sales of locomotive train power convertors, control systems and other train-borne electric systems as well as urban transit electric systems. Listed on HK stock exchange and majority owned by the CSR Group, one of the world's largest railway equipment suppliers. acquired 75% of stake in Dynex in 2008.
- Dynex: a world leading supplier of specialist, high power semiconductor products. Began in 1956 and manufactured some of the first silicon based semiconductor components in the world.

# Upgrading in Dynex

- Process upgrading:
  - new 6-inch bipolar thyristor wafer fabrication line and 6-inch IGBT wafer fabrication production lines replacing existing facilities enabling it to significantly expand its production capability but also lead to improved reliability and robustness;
- Product upgrading:
  - move up to and concentrate on more sophisticated product lines such as higher power bipolar products whilst at the same time transferring production of lower power bipolar products to its sister subsidiaries;
  - explosive growth of its IGBT power group products because of the access to the expansive Chinese markets.

# Upgrading in Dynex

- Functional upgrading:
  - Now able to invest significantly and consistently in R&D. Consequently the level and complexity of its R&D has been rising accordingly.
  - Now fully responsible for sales and distribution of all the products of itself and its parent company except for the market of China and America;
- Intersectoral upgrading:
  - moving into new application markets such as renewable energy, smart grids and electric cars.

# Subsidiary upgrading and parent strategies

- Times Electric's global ambition and its expansion constraint: before the acquisition, it was not able to design and manufacture its own IGBT modules and silicon chips – the 'heart' of electric traction drives;
- Launched an 'acquisition – integration – innovation' strategy in 2007 to develop a core competence in IGBT technology;
- A winning formula by combining Dynex's technology capabilities and its own manufacturing advantage and system know-how: asset-seeking motive and product, process and functional upgrading in Dynex;

# Subsidiary upgrading and parent strategies

- But it also gives Dynex an ideal platform to apply their technologies in the expansive Chinese market and therefore allow it to further improve its technologies;
- Times Electric's diversification based on core competence' strategy and intersectoral upgrading in Dynex;
- Times Electric granted Dynex sufficient autonomy to help them maintain and further develop their technology capabilities – suggests hierarchy does not necessarily mean tight control

# conclusion

- EMNEs can lead to capability upgrading of their acquired subsidiaries in developed countries;
- this is counter-intuitive because: 1. EMNEs are perceived technology inferior; 2. they are seeking assets and therefore possibly asset-stripping; 3. limited upgrading opportunity in hierarchy as the GVC literature would otherwise indicate;
- Theoretical implication: parents' strategies and motives may have a moderating effect on the impact of GVC on upgrading;
- Policy implication:
  - developed countries should welcome developing countries' OFDI.
  - Future of manufacturing in developed countries