POLITICAL EMBEDDEDNESS AND STRATEGIC ASSET SEEKING BY A PRIVATELY HELD EMERGING ECONOMY FIRM: THE CASE OF GEELY'S ACQUISITION OF VOLVO CAR CORPORATION

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ABSTRACT

Political embeddedness in the home country seems to be key to understanding strategic asset seeking abroad by state-owned as well as privately held firms from large, emerging economies. A longitudinal study of Geely's transformation from a local to a global privately held Chinese company in the automotive industry sheds light on the benefits, as well as the costs, of political embeddedness at home. Political embeddedness empowered Geely's acquisition of Volvo Cars Corporation. This and prior acquisitions seem to have furthered Geely's position as a "national champion" in the Chinese automotive industry. The Geely case points to personal and organizational bonding with local and central political actors as important complements to the general management capabilities of privately held multinationals from emerging economies. The firm-specific political connections may also be seen as entry tickets to utilization of home-country assets.

Key words: Political embeddedness, strategic assets, emerging markets, private firms

INTRODUCTION

The acquisition of Volvo Cars Corporation (VCC) by Zheijiang Geely Holding (henceforth referred to as Geely) in 2010 may seem surprising. The Chinese government approved Geely – and not other state-owned car producers, such as Changan or Dongfeng – as the sole bidder when VCC's owner, the Ford Motor Co., put the Sweden-based company up for sale (Reuters, 2009). The fact that privately-held Geely was allowed to bid might have to do with Ford's (and the US government's) disinclination to sell to a state-owned Chinese enterprise, but is still remarkable inasmuch as Geely was a privately held company listed on the Hong Kong Stock Exchange and incorporated in the Cayman Islands. Furthermore, the declared policy of the central government of China was (and still is) one of industry consolidation, implying fewer but larger and stronger Chinese car makers. The establishment of Geely as a key player in the industry encroached on that policy. Nevertheless, Geely's CEO and majority shareholder, Li Shufu, succeeded in building strong ties to local political actors and, in turn, key decision makers in China's central government, and after a few tough years, he also succeeded in obtaining preferential treatment for the production and sales of Geely and Volvo cars in China on par with incumbent state-owned enterprises (SOEs).

Some interesting and wide-ranging research questions arise from the Geely-Volvo case. First, how do privately held firms in a large emerging economy, such as the Chinese, achieve political embeddedness (Okhmatovskiy, 2010; Sun, Mellahi, & Thun, 2010) in their home markets? Second, in which ways do these political connections translate into locational advantages (Dunning, 2001; Lou & Tung, 2007; Hennart 2009/2012;) and, in turn, international expansion (Ramamurti, 2012; Williamson & Raman, 2013). Third, what are the costs of political connections? Although political embeddedness usually gives rise to benefits, the beneficiary may sacrifice economic efficiency in pursuit of imposed societal and political goals (Uzzi, 1996; Fan, Wong, & Zhang, 2007; Okhmatovskiy, 2010). Therefore,

the main purpose of our study is to examine the *net* performance effects of political embeddedness in emerging markets, and how that can contribute to strategic asset seeking FDI by emerging economy firms (EMFs) that are private-owned (Wang, Feng, Liu, & Zhang, 2009).

By closely following Geely since its acquisition of Volvo in 2010, we have gained some insights that, in conjunction with findings from previous studies of emerging economy firms' internationalization and political embeddedness, may bring us closer to answers for these questions. Our aim is to shift attention toward the internationalization of privately held firms in emerging economies, which, in contrast to the internationalization of SOEs, is a somewhat under-researched phenomenon. We have a particular interest in connecting strategic asset seeking among EMFs to theoretical explanations of their internationalization patterns – including the institutional void perspective (Cuerzo-Alvaro & Genc, 2008; Cuerzo-Alvaro, 2012), the springboard perspective (Luo & Tung, 2007; Ramamurti, 2012; Williamson & Raman, 2013), and the bundling model (Hennart, 2009/2012). The institutional void perspective submit that EMFs have a better understanding of emerging market conditions characterized by weak market institutions and therefore has a competitive advantage vis-à-vis established MNEs in these markets. The springboard perspective proposes that EMFs acquire strategic assets in advanced markets for use in their high-growth home markets, where they are entrenched and enjoy privileged insider status. From that stronghold, they then attain competitiveness in other emerging markets and, eventually, in advanced markets. Therefore, the springboard perspective encompasses three undertakings of EMFs: (a) the acquisition of assets in advanced markets, (b) the deployment and leveraging of those assets in the home market, and (c) the exploitation of those assets abroad. The bundling model complements the springboard perspective inasmuch as it expounds the connection between firm-specific and country-specific advantages. The model tells us that valuable local natural resources, concessions, capital, distribution channels, etc., are

accessible for some, but not all firms. Hence, the ability to get access to such local resources may constitute a firm-specific advantage, given that the net effects are positive. The local resources often complement, or bundle with, intangible assets, such as technologies and brands.

Whereas the home-court advantage of emerging market multinational enterprises (EMNEs) seems relatively straightforward for state-owned MNEs, whether and to what extent privately held EMNEs benefit from such an advantage is questionable. In other words, whether the springboard perspective and the bundling model also apply to private-held EMNEs is largely unknown. If so, it seems relevant to investigate how these private firms achieve a home-court advantage that goes beyond the language and cultural barriers faced by foreign firms. In this regard, we subscribe to the general contention that a key characteristic of emerging economies is a strong state regulation usually prevailing in all parts of the national economy (e.g., Kostova, 1997; Kostova & Zaheer, 1999; Henisz & Zelner, 2005). Emerging economies are characterized by fast economic development and the transition of governmental policies to a market-based system (Hoskisson, Eden, Lau, & Wright, 2000). Consequently, uncertainty tends to be higher because of the frequent change of government policies and regulations (Wu, Li, & Li, 2013). Hence, institutional void is inevitable which result in more discretionary power of governments in resource allocation. The private sector is generally regulated to a higher degree in emerging economies than in advanced economies, and “independent” and “private” firms are largely dependent on and often in symbiosis with the state, and without the endorsement of the state, privately held firms find themselves in a difficult situation that tends to deprive them of any home-court advantages (Alvstam & Ivarsson, 2014). As such, we see a strong causal link between privately held EMFs’ political embeddedness at home and their internationalization as manifested in strategic asset seeking.

With the above remarks the paper proceeds as follows: After this introductory section, we review the literature on the theoretical perspectives and core concepts of our study - the springboard perspective, the bundling model, strategic assets, and political embeddedness. This review encompasses the antecedents, development and cost-benefits of political embeddedness in an EMNE context. On the basis of the literature review we present our analytical framework. Section three comprises the empirical case on Geely, where we first present our case methodology, then provide basic information about Geely, including its origins and its entry into the Chinese and international automotive industry. In line with the before-mentioned 'triplicity' of the springboard perspective, we thereafter, a) account for Geely's acquisition of strategic assets (including VCC) in advanced markets, b) its deployment and leveraging of those assets in its home market, and, c) the their exploitation in other emerging as well as advanced markets. Each of these three sections includes a subsection in which we account for developments in Geely's political embeddedness and the associated benefits and costs. After this, the paper analyzes and discusses the main findings, where we address our research questions. We finalize the paper with conclusions and future research avenues.

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

Literature review

Several IB scholars have pointed to political embeddedness in the home market as key to understanding the internationalization of emerging market firms, especially with regard to internationalization trajectories involving strategic asset seeking. The springboard perspective (Luo & Tung, 2007; Ramamurti, 2012; Hertenstein & Williamson, 2014) proposes that EMNEs acquire strategic assets in advanced markets not only to attain competitiveness in advanced markets, but also – and, perhaps,

mainly – for use in their home markets. Ramamurti (2012, p. 43) discusses this aspect of the springboard perspective suggesting that "EMNEs go abroad to obtain technologies and brands *primarily for exploitation in their home markets, not abroad*. For firms from large, high-growth markets, such as China, Brazil, or India, this makes strategic sense" [author's emphasis].

Local firms in emerging markets inherently hold an advantage over foreign firms due to their familiarity with language, culture, and business practices, and their lack of exposure to foreign-exchange risks. However, local firms in the private secor may experience direct or indirect discrimination from the authorities when it comes to acquisitions and exploitation of strategic assets acquired in foreign markets. Conversely, local SOEs and foreign firms (MNEs) may experience preferential treatment by the government of the emerging economy. To MNEs such preferential treatment may, at least temporarily, outweigh their liability of foreignness in terms of unfamiliarity with local rules and business practices. However, our focus is neither on the political embeddedness of MNEs or the local, state-owned EMNEs but on the privately held EMNEs and their acquiring, deploying and leveraging on a global scale of strategic assets. Before we elaborate on how these privately held EMNEs fit the springboard perspective and the bundling model we consult the literature for an interpretation of the core concepts – strategic assets and political embeddedness.

Strategic assets

Our interpretation of 'strategic assets' originates from Dunning's suggestion that motives for foreign direct investment (FDI) fall into several categories: market, resource, efficiency, and strategic asset seeking (Dunning, 1993; Dunning and Lundan, 2008). In this categorization system, the strategic-asset motive pertains to FDI that intends to add assets to the acquiring firms' existing portfolios – assets that "they perceive will either sustain or strengthen their overall competitive position, or weaken that of

their competitors" (Dunning, 1993 p. 60). In a similar vein, Makino, Lau, & Yeh (2002) and Wesson (1993) distinguish between asset-exploiting and asset-augmenting FDI, where the latter focuses gaining access to new technologies and organizational capabilities. In terms of overseas R&D investments, Dunning & Narula (1996) develop dichotomies of asset-exploiting and asset-seeking investments. In addition, Kuemmerle (1999) contrasts home-base-exploiting with home-base-augmenting R&D activities, and points to the growing importance of augmenting existing assets by absorbing and acquiring technological spillovers arising from agglomerative effects in specific sectors or specific organizations in the host countries.

In line with Dunning's (1993) definition of strategic asset seeking as including assets acquired with the purpose of weakening the competitive position of other incumbent firms, we propose that assets acquired for future use (such as R&D subsidiaries) and assets acquired or leased[1] for use in other foreign markets or in the home market should be labeled "strategic." One example would be the undertaking of FDI in a competitor's home market aimed at retaliating against that competitor's entry into the MNE's own, lucrative home market (Graham, 1974; Knickerbocker, 1973). Other examples of strategic asset seeking relevant to the springboard perspective are the acquisition (or leasing/licensing) of technologies or brands in foreign markets for use in the home market.

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

[1] Dunning's (1993) FDI motives concern only assets *owned* by the MNE. However, by obtaining user rights, such as a license to a certain technology, entrant firms may control assets without owning them. We therefore include the leasing of strategic assets as an alternative to the acquisition of such assets.

Political embeddedness

As already mentioned, national firms in emerging markets hold an advantage over foreign firms because of their innate knowledge of the local language, culture, and business practices, but they are not necessarily better off in terms of preferential treatment by national authorities. In other words, some local firms may experience direct or indirect discrimination by the authorities in general and when it comes to the exploitation of strategic assets acquired in foreign markets. This relates to one of the main characteristics of emerging markets – the state's prominent role in the local business environment (e.g., Henisz & Zelner, 2005; Kostova, 1997; Kostova & Zaheer, 1999), where direct or indirect discrimination by the state is critical (van Tulder, 2010). Governments in emerging markets often provide overt and covert support to domestic firms in their internationalization operations (The Economist, 2010; Luo, Xue, & Han, 2010; Gaur, Kumar, & Sarathy, 2011; Ren & Zheng, 2012), but the role of the state is more salient in the home market. In particular, we highlight the notion of homegrown (Bhattacharya & Michael, 2008) or national (Sauvant, Maschek & McAllister, 2009) champions as companies in emerging markets that are favored by the federal or local government. Governments can select such local firms with the intention of nurturing them as leaders in certain industries believed to be of strategic importance to the country. As such, national champions are intended to bolster the country against dominant multinational enterprises from advanced markets. Consider China's Lenovo as an example. Hand in hand with its impressive globalization, Lenovo is also considered to be a "national champion," and it is heavily reliant on profits from the domestic Chinese market to finance its overseas expansion (Deng, 2012; The Economist, 2013). Lenovo holds a dominant position in the Chinese PC market not least due to its impermeable distribution network (Chen, Qin, Ye, & Yin, 2001; Hennart, 2012). However, the "national champion" qualification is not

reserved for SOEs, as any company with strong links to the "political elite" may be eligible for this status (Alvstam & Ivarsson, 2014). For instance, an EMNE affiliated with a business group may qualify as a national champion. One characteristic of a business group is its "insidership" or "political embeddedness," which is established through close connections to the political system (Granovetter, 1994; Guillén, 2000; Sun et al., 2010) - e.g. through donations to political parties and partial state ownership. Hence, companies organized in these business groups may qualify as national champions and in this capacity undertake strategic asset seeking in advanced markets (Sutherland, 2009). The home-market advantage held by EMFs is therefore not necessarily a matter of state ownership. It is instead associated with the subtler concept of political embeddedness in a firm-government context (Okhmatovskiy, 2010; Sun et al., 2010). In other words, the home-market performance of an EMF closely correlates with its degree of political embeddedness, which is not necessarily connected to state ownership. In its wider understanding political embeddedness refers to ties between firms and governments for mutual influence and benefits. Hence, the concept is defined broadly as "bureaucratic, instrumental, or affective ties to the state and its actors" (Michelson, 2007, p. 353) and includes formal and informal, individual and organizational ties to the state. A similar broad definition is provided by Sun et al.'s (2010, p. 1163) definition of political embeddedness "as a portfolio of a firm's individual and institutional ties to the constituent parts of the state." This definition implies that political embeddedness resides at the interpersonal level in managerial ties to political actors and at the inter-organizational level in organizational ties to political institutions, including central and local government bodies. For firms in general (not only EMFs), the degree of political embeddedness varies significantly. It can be operationalized as the total number of ties between business firms and key political institutions and actors, and the strength of those ties (Baum & Oliver, 1992; Hung, 2005).

The financial benefits of political embeddedness in emerging markets have been estimated to be substantial in a number of empirical studies of both local (Peng & Luo, 2000; Michelson, 2007) and foreign firms (Henisz, 2000; Luo, 2001/2007; Zhao, Anand, & Mitchell, 2005). On the flip side, the political embeddedness of a firm may be harmful if the political landscape shifts dramatically and the political elites lose power (Fisman, 2001; Sun et al., 2010). However, less seems to be known about the financial costs of political embeddedness in a stable political landscape. As Okhmatovskiy (2010, p. 1022) points out: "…if we look at ties that provide the government with opportunities to exercise some control over the firm, it appears that such ties do not necessarily have positive effects on performance. In fact, many economists describe state control as a source of inefficiencies." Not surprisingly, governments tend to pursue their own political or socio-economic goals and may use its control to divert firms' resources away from what corporate objectives would prescribe (Schleifer & Vishny, 1998; Okhmatovskyi, 2010). We can also associate political embeddedness with costs in terms of managers' time and effort spent on political lobbying (Choi, Jia, & Lu, 2015). The cultivation of good relationships with politicians and government officials require a considerable amount of time spent on meetings and other face-to-face interaction (Child, 1994; Lou & Peng, 2000) – time investments that distracts managers' attention from exertion of day-to-day operations and strategy planning and execution. Furthermore, although more speculative, political embeddedness may result in adversarial treatment in foreign markets due to geopolitical tensions (Fan et al., 2007; Wu et al., 2013) due to geopolitical tensions, and/or accusations of price dumping as a result of home-country subsidies.

In fact, there are mixed results in the literature as to the net effects of political embeddedness (Sheng, Zhou, & Li, 2011; Zhang, Tan, & Wong, 2015): Some scholars find a positive impact (e.g., Chen, Li, Liu, & Peng, 2014), others no effect (e.g., Wong, Feng, Liu, & Zhang, 2009), and some find a negative impact (e.g., Fan et al., 2007). In the latter case, one may talk about 'political

overembeddedness' (Hagedorn and Frankort, 2008; Uzzi, 1997). In these situations the costs of ties to the government on local or central level exceed the benefits and, consequently, the overall performance of the firm will be negative (Okhmatovskyi, 2010).

The applied theoretical perspectives

With our interpretations of strategic assets and political embeddedness in place, we can return to the institutional void perspective, the springboard perspective and the bundling model for explanations of why EMNEs are in a position to leverage these strategic assets in their home market and, in turn, the global market. This sequence of international expansion of EMNEs follows from the springboard perspective, distilled in the words of Luo and Tung (2007, p. 485):

"[T]he global success of […] EMNEs is still highly dependent on their performance at home. […] Furthermore, it is foolish for these EMNEs to ignore their home markets while multinationals from advanced and newly industrialized countries are strongly attracted to the opportunities, and hence huge profit potential, posed by emerging economies. Because these global rivals face liabilities of foreignness whereas EMNEs enjoy home court advantage, it is counterproductive for EMNEs not to capitalize on their home markets and home bases."

An important question is, however, if and how privately held EMNEs enjoy a home-court advantage that goes beyond the language and cultural barriers faced by foreign firms? In other words, do some local private EMNEs hold a competitive advantage over entrant MNEs not only due to language and culture, but also because of positive discrimination from its home country government? The bundling model (Hennart, 2009/2012) helps us in answering this question inasmuch as it sheds light on why it is only *some* firms that are able to combine acquired strategic assets with country-specific resources in a profitable way and what this complementarity is about. As pointed out by Hennart (2012) the strategic

assets honed by EMNEs are primarily technology and brands. The leveraging of these assets requires absorptive capacity of the EMNE in terms of technology and marketing knowledge. To the extent that this knowledge is embedded in individuals the EMNE must also possess HR skills in an intercultural setting. Put together, the EMNE must possess exquisite multinational management capabilities. Furthermore, it is difficult to imagine EMNEs acquiring strategic assets in advanced markets not having some firm-specific advantages themselves (Ramamurti, 2012). These FSAs may include capabilities of making beneficial ties to the political actors (Choi et al., 2015), but certainly also the management capabilities of integrating the acquired foreign assets into the EMNE organization (Ramamurti, 2012). Hence, the literature suggests two managerial antecedents of profitable strategic asset seeking of EMNEs: capabilities in establishing and nurturing beneficial political ties and capabilities in cross-cultural post-acquisition integration.

Whereas the springboard perspective and the bundling model together assist us in understanding how the strategic assets acquired by EMNEs can be leveraged in the home market, the institutional void perspective (Cuerzo-Alvaro & Genc, 2008; Cuerzo-Alvaro, 2012) provides insights as to how these strategic assets may be leveraged on a global scale. This perspective suggests that EMNEs, because they know how to navigate in a business environment characterized by weak market institutions, will deploy the acquired strategic asset in other emerging markets rather than in advanced markets where they do not hold a competitive advantage vis-à-vis established MNEs. Whether this really holds true is essentially an empirical question. As such, our case study may contribute to answer this question, by looking into Geely's deployment of strategic assets in these markets**.**

Analytical framework

Our literature review provided insights into the interrelatedness of strategic asset seeking among EMFs and their political embeddedness at home. The springboard perspective and the bundling model stress this connection and implicitly assume that the benefits of this embeddedness (e.g., various protective measures and subsidies) protect the home market. The literature review also gave hints as to how this political embeddedness emerges. Furthermore, the institutional void perspective suggested that the political embeddedness at home may be leveraged in other emerging markets but less so in advanced markets. However, the insights yielded from literature review mainly pertain to state-owned EMNEs or MNEs from advanced markets, and less to private-held EMNEs. Furthermore, the extant research mainly connects the downsides of political embeddedness to major shifts in political regimes but not so much to the general net effects associated with political embeddedness. Our study aims to help fill these two knowledge gaps. First, we offer a view on how privately held EMFs can achieve political embeddedness. Second, we analyze the downsides directly related to the achievement of political embeddedness (mainly in terms of lobbying costs) as well as indirect costs associated with the suboptimal deployment of strategic assets. The latter may include penalty costs and extra transportation costs incurred as a consequence of locating production plants in remote industrial zones at the request of local and central government bodies, and – in advanced markets – discriminatory treatment due to intimacy with the home country government. A main purpose of our case analysis is to shed light on what these costs and benefits may be. Our research into this issue responds to Peng and Zhou's (2005) call for the undertaking of more disaggregated, contextual analyses aimed at examining the (net) performance effects of network embeddedness in emerging markets. Along these lines, we disaggregate the cost-benefit analysis of political embeddedness into the three parts associated with the triplicity of the springboard perspective, see Figure 1.

*** Insert Figure 1 about here ***

Our presumption is that the benefits of political embeddedness clearly exceed the costs in relation to EMNEs' *deployment* at home of strategic assets acquired in advanced markets. This presumption resonates with the logic of the springboard perspective. Furthermore, we assume that the same is true for the preceding *acquisition* of strategic assets. In fact, political embeddedness may be a prerequisite for bidding on strategic assets in advanced markets because EMNEs typically require permission to bid from their home-country authorities. With regards to the *exploitation* of strategic assets on a global scale, the net benefit of political embeddedness appears to be more of an open question. The net value of political embeddedness most likely differs depending on whether the exploitation of the strategic assets pertains to other emerging markets or to advanced markets. It is possible that the political embeddedness of the EMNE in the home country could be a liability when it comes to the exploitation of assets in advanced markets.

EMPIRICAL STUDY: THE GEELY CASE

Methodology

The case-study data has been compiled during the period from the acquisition in 2010 up to the end of 2015, i.e. we have used a longitudinal qualitative approach. As seen in Table I, data have been generated through a substantial number of interviews and other forms of personal communication with senior managers during frequent company visits to Volvo Cars Corporation's corporate head office, and at the R&D center China Euro Vehicle Technology (CEVT), operated together with Geely, in Gothenburg, Sweden.

*** Insert Table I about here ***

Interviews were also undertaken during visits to Volvo Cars' units in China, including its Chinese head office in Shanghai (Jiading and Pudong), its car assembly plants in Chengdu (Sichuan province) and Daqing (Heilongjiang province) and the engine factory in Zhangjiakou (Hebei province). We also held interviews at one of Volvo Cars' minority owners, the State Asset Operations Company in Daqing. In addition, also key actors in Geely have been interviewed during visits at their Headquarters in Hangzhou as well as at assembly plants in Chengdu and Cixi between 2011 and 2014. Other case-study data were gathered from secondary sources, including company documents from both VCC and Geely. The substantial number of informants has made possible a triangulation of primary data, where we generally rely on information provided by two or more persons, often with different and complementary management responsibilities, ranging from production managers at the assembly plants, up to top-level executives, including Li Shufu, CEO of Geely Automotive, Gang Wei, Deputy CEO of CEVT, and Hans-Olov Olsson, Vice Chairman, VCC.

The data used to build our case was originally collected as part of a more general interest to understand the dynamics behind Geely's acquisition of VCC and the subsequent integration of their operations. The institutional and political context in China has naturally been a key to understand the evolving relationship between these two companies, together with such factors as the development of the global auto market and new technology demands. In the current analysis we particularly make use of empirical data that contribute to an increased understanding of how Geely has been able to manage the advantages and costs of government support in a manner that have contributed to strengthen the company's market position, both in China and internationally.

Through our case, we do not intend to invent new theory, but rather to combine known theoretical approaches into a novel, integrative theoretical framework that offers a more comprehensive view of how political embeddedness can contribute to strategic asset seeking FDI of EMNEs. We therefore use the Geely case to show how some of the theoretical constructs interact in practice and how those interactions have inspired the development of our framework. Consequently, our contribution is not developed strictly according to the principles of grounded theory (Strauss & Corbin, 1990). Rather, it encompasses elements of an inductive approach, as we have followed the firm for a number of years through a dialogue with several of its senior managers. This longitudinal perspective is important, as it enables us to follow the evolution of the firm's strategy and operations over time. The opportunity to follow changes over time is one asset of the case-study method (Pettigrew, 1990).

Simultaneously, our study is influenced by deductive methodology. From the outset, we were inspired by the theoretical foundations incorporated in the model, which are derived from the literature on the internationalization of emerging economy firms. This movement from theory to empirics, and the use of theory to operationalize concepts, is essentially deduction.

In sum, our study of the Geely-Volvo case is both inductive and deductive. Our use of the findings from the case is guided by extant theories. However, the information emerging from Geely's acquisition of foreign strategic assets and their deployment at home also influences our application of the theories, and our preconceptions have been affected and modified by the empirical data. The value of initially defining a set of theoretical constructs and variables, and then collecting data in order to explore the relations between theoretical constructs and empirical data is stressed in Eisenhardt's (1989) and Mintzberg's (1979) seminal contributions to case-study methodology. While Eisenhardt (1989) describes the importance of undertaking theory-building research "as close as possible to the

ideal of no theory under consideration and no hypothesis to test," she also acknowledges that "it is impossible to achieve this ideal of a clean theoretical slate" (Eisenhardt, 1989, p. 536).

Geely's Origin and Growth

Geely was established as a private company in 1986 by the entrepreneur Mr. Li Shufu, focused on the production of refrigerators for the Chinese market. In 1994, the production of motorcycle parts and step-through scooters began and soon the company became one of China's largest motorcycle producers with exports to over 20 countries. Further plans to begin car production were initially stopped by the Chinese government, who during the mid-90s exclusively supported the large, state-owned car producers (and their JV partners). However, in 1996, Li Shufu bought shares in a manufacturer of small vans and microbuses located in Deyang, just outside Chengdu in the Sichuan province, including a car production license (Anderson, 2012), and in 1998, the first Geely car, a Haoqing SRV, rolled off the assembly line located in the newly built plant in Li Shufu's hometown of Taizhou, in the Zhejiang-province.

Even though it was a small and newly established car manufacturer, Geely succeeded in growing its car production mainly by focusing on simple cars in the lowest price segments, and in 2001, Geely was officially recognized and included in China's Automobile Manufacturing Index. Today, Geely is the only major Chinese car company without formal ties to the state and one of China's major national car producers with around 18,000 employees and a market share in China of around 3 per cent (2014). Geely's car sales have grown from 200 vehicles in 1998 to around 200,000 in 2008, and sales have reached 400,000-500,000 units per year since 2010, including fluctuating but growing export volumes; see Table II).

*** Insert Table II about here ***

The product portfolio consists of some 30 models ranging from small C-class cars to large SUVs (Sport Utility Vehicles). Geely is headquartered in Hangzhou in Zhejiang province, where its major R&D facilities are also located. The company has nine integrated production facilities comprising stamping, welding, painting, engines, gearboxes, and assembly located in various parts of China.

Benefits and costs of political embeddedness in the early years

Geely's entry into the Chinese car manufacturing industry and its subsequent growth and international expansion would not have been possible without support from local, regional and national politicians. In the mid-1990s, Zheijang's provincial government was instrumental in helping Geely obtain licenses from the Ministry of Machine Building to produce passenger cars and to set up production in Zheijang province. At the end of 1990s, Geely received an important capital injection from the local government in Taizhou, Li Shufu's home town. The local government also sold public land to Geely, which subsequently was sold to real-estate developers at market prices, thereby contributing around RMB 1 billion to Geely's balance sheet. In addition, Geely was granted tax breaks (worth around RMB 80 million annually) by the local government.

In 2002, Li Shufu appointed a former accountant from the Zheijang Provincial Local Tax Bureau as president of Geely, which presumably helped Geely in establishing important contacts with banks at the provincial level, eventually resulting in a loan of RMB 100 million. Also, an agreement with China Everbright Bank, one of the largest state-owned banks in China, enabled Geely to expand its car production and thereby become one of the major privately owned car manufacturers in China. To notice is that that during this time Li Shufu also became a member of the Communist Party of China

(CPC), and since 2003 he is a deputy to the People's Congress in Taizhou and a member of the Chinese People's Political Consultative Conference (CPPCC).

To finance Geely's expansion during the early 2000s, more capital was needed, and in 2004 Li Shufu bought a shell company in Hong Kong and, in 2005, the national government approved Geely Holding Group's application to be listed on the Hong Kong Stock Exchange through an Initial Public Offering (IPO). The IPO generated HKD 2 billion in capital in 2007 and was an important step toward being recognized by the larger investment banks. In 2009, Goldman Sachs invested USD 334 million in Geely. By this time, Geely had caught the interest of the national government. One example of this interest was a 2009 visit to one of Geely's factories by the acting Prime Minister Wen Jiabao, who was cited in the press as having encouraged Li Shufu to send a special report to the State Council and promised to continue to support Geely's industrial development. The listing on the Hong Kong Stock Exchange and the preceding incorporation of Geely Holding in the Cayman Islands in 1990 both required permission from the national government. Without these permissions, it would have been impossible to finance Geely's expansion.

Acquiring Strategic Assets in Advanced Markets

In order to grow and to access strategic assets, such as brand names, technological capabilities, and production resources Geely's has made some key acquisitions, mainly abroad. The first took place in 2006 when Geely bought 23 per cent of the UK's Mangane Bronz Holding – the producer of the black London taxis. Together, they formed a joint venture in China, and set up a manufacturing plant in Shanghai for the production and export of completely knocked down (CKD) black cabs for assembly in the UK. In 2013, Geely bought the remaining shares in Manganese Bronze and became the sole owner,

and in 2015, Geely announced that it would build a new assembly plant in Coventry, the UK, for the production of these cars.

Another important acquisition that brought new technological capabilities occurred in 2009 when Geely acquired Drivetrain Systems International (DSI) from Australia, a leading global producer of automatic transmissions. Through this acquisition Geely was able open three new local transmission plants in China – one at its car-assembly plant in Xiangtan (Hunan province), one in Jining (Shandong province), and one in Chongqing. The acquisition provided access to state-of-the art technology, which was crucial for building up Geely's own in-house transmission capability. In 2013, this resulted in the launch of its own advanced six-speed gearboxes and made Geely the only domestic producer in China of advanced gearboxes (China.org, 2010).

A further acquisition was made in 2014, when Geely acquired the UK-based electric-vehicle start up company Emerald Automotive. This gave access to two prototypes of electric delivery vans developed by Emerald, and which now constitute part of Geely's plans to introduce electric taxis to the Chinese and international market. Moreover, this acquisition of electrical vehicle technology was well in line with the Chinese government's national plan to reduce car emissions by introducing more energy-efficient vehicles and encouraging the use of alternative energy. More recently Geely has also established partnerships with two Chinese companies, Kandi Technologies Group and Ocean Electric Vehicle Technology, for the development and production of electric cars.

However, the most spectacular step in Geely's strategic asset seeking strategy was taken in 2010 when Geely Holding acquired Volvo Car Corporation (VCC) from the Ford Motor Company (USA). VCC, which was originally established in Gothenburg, Sweden in 1926, was acquired by Ford in 1999 for USD 6.45 billion. VCC was a globally recognized producer of safe, high-quality cars, including hatchbacks, sedans, and SUVs. For many years, VCC aspired to compete in the premium car segment,

but in a global perspective, the company was a small-scale producer with annual production of around 400,000 units and a total work force of around 20,000 employees in 2010. The company's global market share was less than 1 per cent, with Sweden, the US, the UK and other European countries representing the majority of sales.

At the time of the acquisition, VCC's operations were largely concentrated to Sweden, where the company's head office, R&D, and main car production occurred at its original home base in Gothenburg, while engine production and body stamping was carried out in the cities of Skövde and Olofström, respectively. Moreover, VCC had a manufacturing plant in Ghent, Belgium, which was established in 1965 and was mainly used for smaller car models. It also had a small assembly plant in Malaysia for Completely Knocked Down (CKD) vehicles, which was set up in 1967. In the Ford era, VCC's own R&D and sourcing capacity was reduced and the company became highly dependent on Ford's technologies, including vehicle platforms and engines. Volvo had only a minor presence in China prior to Geely's acquisition, mainly through the low-volume production (around 10,000 per year) through Ford's joint venture with Changan/Mazda in Chongqing. In this regard, its presence in China was highly dependent on Ford with regard to such activities as marketing, sales, and sourcing.

Since 2010, Geely has made substantial investments (around USD 11 billion at the time of writing) in new product and process development for both Geely and Volvo, much of which is carried out at Volvo's home base in Gothenburg, Sweden. These investments are aimed for global exploitation, including also China. First, capital investments by Geely has made possible for Volvo to develop a new in-house engine technology that will be used both by Volvo and Geely. This includes a new Drive-E engine family, based on Volvo Engine Architecture (VEA), in which three or four cylinders generate the same capacity as six-to-eight cylinders normally do.

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

A third type of new product development, which is aimed at both Volvo and Geely, is carried out in the new joint R&D center China Euro Vehicle Technology (CEVT). This opened in 2013 in Lindholmen Science Park, close to VCC's main operations in Gothenburg, and focuses on product development for smaller cars ("C-class") scheduled for introduction in 2017. By mid-2015, it employed around 1 200 engineers in Gothenburg including some 800 consultants, making it one of the largest auto-competence centers in Europe. For Geely, this joint R&D center will bring about technological capabilities and enable the introduction of new car models with significantly improved quality and performance.

Benefits and costs of political embeddedness when acquiring strategic assets

Geely's foreign acquisitions were supported both by the local and national governments in China, especially in the case of VCC. Initially, Li Shufu tried to attract investors within the Chinese auto industry to raise capital for the acquisition of VCC, but this did not succeed (Anderson 2012, pp. 146-147). Instead, the acquisition of Volvo was made possible through a consortium of three investors, with Geely as the majority owner (controlling 51 per cent of the shares) and two local governments were minority owners. The State Asset Operations Company in Daqing (Heilongjiang province) took a 37 per cent share, while Jia'erwo Investment Co. in the city of Jiading, Shanghai, took 12 per cent. The

central Chinese government also supported Geely in acquiring Volvo. First, it selected and approved Geely, rather than such SOEs as Changan and Dongfeng, or the private car producer, Chery, as the sole Chinese bidder for Volvo in 2009 (Reuters, 2009). Second, Geely was provided with a state bank loan of around USD 100 million to finance the acquisition. Moreover, in 2011, Geely received national subsidies valued at USD 140 million, equivalent to half of the company's net profit and far more than what any other "private" firm received (The Economist, 2013). As already mentioned, the central and local governments initially supported Geely in acquiring VCC; this was later reinforced when the state-owned China Development Bank provided a favorable loan to finance VCC's new business plan in 2012, with the company itself as security (Reuters, 2012).

Deploying and Leveraging Strategic Assets at Home

One of Geely's main objectives in acquiring VCC was to take advantage of the prestigious Volvo brand on the Chinese home-market. In order to accomplish this Geely has made substantial investments to grow its operations in China. Particularly, this include a new business organization for VCC, This consist of around 2,500 employees, a local head office in Shanghai, responsible for product development, sourcing, marketing, sales, and human resource management, as well as a new industrial footprint in the form of three newly built manufacturing plants. The manufacturing plants are located in three different parts of China. The first assembly plant, opened in 2013 in Chengdu (Sichuan province) has a capacity of 120,000 units per year, and mainly produces the S60L, a Volvo sedan model made 15 centimeters longer to fit the Chinese market. This plant is located in Longquanyi, in the eastern part of the Chengdu metropolitan area, on premises owned by Geely, who also operate an assembly plant on the same ground.

The second VCC assembly plant opened in 2014 in Daqing (Heilongjiang province), with an initial annual production capacity of 80,000 cars. In the start-up phase, Volvo assembled only small volumes of an outgoing SUV model (XC90 Classic) based on CKD vehicles imported from Sweden. However, by the end of 2016, the plant is scheduled to start production of Volvo's existing XC60 model and the new S90L model, and the plan is to increase production to around 170,00-180,000 units by 2020, including some exports.

The third manufacturing plant also opened in 2014, located in Zhangjiakou (Hebei province), around 200 km northwest of Beijing. This is an engine plant designed to produce VCC's new Drive-E engines, which had been developed in Sweden, as discussed above. The plant will mainly produce smaller engines (3-litre) to be used by both Geely and Volvo for their smaller cars produced in China, and also exported to Geely's assembly operations outside China and to Volvo's assembly plant in Ghent. For Geely, this new plant will provide access to the latest state-of the-art engine technology and thereby assist to fulfill the ambitions of becoming a leading automaker in China as well as internationally.

In 2015 Geely announced an additional investment in production capacity, where a new assembly plant for small Geely cars will be set up close to their existing assembly operations in Luquio, Taizhou city. It is scheduled to open in 2017, and will be owned by Geely but managed and operated by VCC, who will produce both Volvo and Geely cars based on the common CMA platform, developed at the joint R&D center in Gothenburg (discussed above). The plant will be built and operated according to VCC's globally standardized "Volvo Cars Manufacturing System," with the same state-of-the art processes and equipment as used in its assembly plants in Europe, as well as in Chengdu and Daqing.

The above investments aim to strengthen the market position for both Geely and Volvo. For VCC these investments are aimed at double its global sales to 800,000 units by 2020, of which 200,000 units are to be sold in China alone. Prior to the acquisition, VCC was highly dependent on its home region,

with around 60 per cent of total sales occurring in Europe (almost 15% in Sweden) during the last decade (see Table III).

*** Insert Table III about here ***

The US has traditionally been VCC's largest single market representing more than 25 per cent of VCC's global sales in 2006. However, US sales decreased dramatically, such that the US only accounted for 12 per cent of VCC's global sales by 2014. At the same time, VCC increased its sales in China from 31,000 units at the time of Geely's acquisition to 82,000 units in 2015, which contributed to an all-time high of over 500,000 Volvo cars sold worldwide in 2015. This also meant that China had become Volvo's largest single market with 16 per cent of total sales in 2015, which exceeded the figures for the original home market of Sweden, as well as the US.

Benefits and costs of political embeddedness when deploying and leveraging assets at home

A less visible but essential gain from Geely's foreign asset acquisitions was the support it had from local as well as central governments. As already mentioned, the central and local governments initially supported Geely in acquiring VCC, and this support was later reinforced when the China Development Bank provided a favorable loan to finance VCC's new business plan in 2012, with the company itself as security (Reuters, 2012). China's new policy for its auto industry also contributed to Geely's growth. For example, in 2013, Geely (including VCC) was included on the list of suppliers of prioritized government cars, while several foreign car producers were left off the list (Wall Street Journal, 2013). The same year, China introduced a new "anti-monopoly" policy that effectively increased costs for foreign auto manufacturers in China in terms of, for example, spare-parts and dealer networks

(Bloomberg, 2014). Geely was also selected as one of around 10 prioritized car manufacturers when the government attempted to squeeze large foreign and small domestic car manufacturers in order to consolidate the Chinese auto industry. Another important market signal was given when Geely was selected as the first Chinese brand to be the official car supplier for the Asia-Pacific Economic Cooperation (APEC) meeting in Beijing in 2014 (China Daily, 2014).

On the flip side of benefits one visible cost Geely has to pay for its political connections in China is related to a sub-optimal location and scale of operations in China. Taking a look at Geely's and VCC's industrial footprint in China, (see figure 2), it is evident that the geographically dispersed location pattern has been influenced by other considerations that an efficient production and business organization.

*** Insert Figure 2 about here ***

First, Geely, with its headoffice and major R&D center in Hangzhou, (Zhejiang province) in east China, operate a large number of manufacturing plants. Some of these are located in Geely's homebase in Zhejiang, including major assembly plants in Ningbo and Cixi, as well as the two plants in Linhai and Luqiao located in Li Shufus home town Taizhou. In addition, Geely operate manufacturing plants distributed throughout China, including Xiangtan (Hunan) in South Central China, Chengdu (Sichuan) in South West, Lanzhou (Gansu) in North West, Jinan (Shandong) and Shanghai municipality, both in East China. In addition Geely has recently opened three transmission plants in various parts of China – one at its car-assembly plant in Xiangtan (Hunan), one in Jining (Shandong) in East China and one in Chongqing municipality in South West China.

When it comes to VCC's operations, it is also clear that their locations have been influenced by other considerations than building an efficient production organization, where the Chinese headquarter in Jiading (Shanghai) are located some 2,000-2,300 km from their car assembly plants in Chengdu (Sichuan) and Daqing (Heilongjiang). These, in turn are located over 3,000 km from each other, with the new engine plant located about half way in between, in Zhangjiakou (Hebei). Related to this is that both Geely and VCC operates a larger number of assembly plants, with a combined production capacity that is much higher than their current and anticipated production demand. The efficient production scale of modern car assembly plant is some 200,000-250,000 units, and according to their local engineers in China, VCC in reality only need one assembly plant instead of two, while Geely in reality need three or four assembly plants, instead of nine, with even more on its way. In other words, both Geely's and VCC's operate their production units well below their efficient minimum scale.

The large number of geographically dispersed production units also has negative effects on the general management and coordination, with such critical operations as development and sourcing concentrated to Geely's and VCCs headoffices in Hangzhou and Shanghai, respectively. In addition to being many and small, a large number of their production units are located in more peripheral regions without an established automotive industry and few auto component suppliers. This result in very long internal supply-chains, with extended lead times, where engines and transmissions are manufactured in-house by VCC and Geely in separate locations and shipped to car assembly plants over long distances. It also result in long external supply-chains, when materials and components to their assembly plants often have to be sourced from other regions, and also from multiple suppliers (or at least from multiple sites), resulting in fragmented supply chains and less scale economies in sourcing. For VCC, it has also resulted in some additional in-house assembly at their Daqing plant, given the existing weak local supply base, while in Chengdu, VCC have allocated significant extra resources to find, train and

motivate shop-floor workers, given the lack of traditions of the automotive industry. The remote location for VCCs assembly operations can also have negative effects on imports of components and exports of assembled cars, due to the long distances to international ports.

This industrial footprint is mainly an outcome of Geely's political connections and support from local, regional and national governments in China, which are especially visible in the case of the acquisition of VCC and its expansion China. As discussed above, initially, Li Shufu's tried to attract investors within the Chinese auto industry to raise capital for the acquisition of VCC, but did not succeed. Instead, the local governments in Daqing (Heilongjiang province) and Jiading (Shanghai) became two significant minority owners, who made their investments basically on local political considerations.

The Daqing region is highly dependent on the oil industry, and the investment in VCC by the State Asset Operations Company is part of the local government’s long-term plan to diversify the economy, where one of the pillars is to build a local automobile industry, including local car assembly and a regional supplier base, that can create future jobs and tax incomes in a more sustainable manner than the existing base of raw material exploitation. Since long, Li Shufu has had personal contacts with leading authorities in Daqing discussing the possibility to set up a local Geely assembly plant. However, when the opportunity to acquire VCC appeared, the local government in Daqing decided to instead make a significant capital investment, and in addition provided tax benefits, infrastructure, and cheap land, to secure the establishment of an assembly plant operated by an international car manufacturer.

A key motive for the investments in VCC by Jia’erwo Investment Co in Jiading is also the aim to generate future jobs and tax incomes. The original idea was to set up a VCC car assembly plant in the Shanghai area, but this was not approved by the national government whose current policy is to

decentralize the automotive industry to more peripheral provinces. Therefore, the decision was made to locate various head-office functions to Jiading (and to Shanghai's Pudong district), deemed to be more suitable for the growing service economy in the Shanghai region.

VCCs first assembly plant in China was instead located adjacent an existing Geely plant in Chengdu (Sichuan), supported by the local governments. Together with other automotive companies, such as Volkswagen and Citroën, these plants are established as part of a new city development plan, where local governments provide cheap land, infrastructure and tax exemptions in return for investments in manufacturing operations.

The location of VCC's engine plant in Zhaijakao is also an outcome of political connections and public support, where local governments hope to stimulate economic growth and diversification by attracting companies to set up manufacturing operations. This engine plant was initially planned to be established in Shanghai, but significant subsidies from the city's local government (e.g., tax reductions, and investments in infrastructure and plant buildings) and personal contacts with Mr. Li Shufu, affected the decision in favor of locating the engine plant in Zhangjiakou.

Thus, the wide geographical spread of VCCs manufacturing operations is to a large extent a result of local governments' desire for a payback from Geely in exchange for the provision of local infrastructure, plant sites, tax grants, and access to local financial capital. In addition, it is well in line with the national government's requirement of spreading investments to cities and regions in the more peripheral areas of China, as set out in the current 12^{th} and the forthcoming 13^{th} Five-Year Plans. In these national plans, the automotive industry plays a crucial role for the further decentralization of manufacturing industries to inland provinces.

To notice is that the influence of local, regional and national governments on the location of VCCs manufacturing plants also has contributed to a gradual geographical shift in Geely's location pattern in

China. Looking at Geely's most recent investments in China, it is evident that they to a large extent are coordinated with the location of VCCs operations. First, this is seen in Chengdu, where VCC operate their new assembly plant next door to an existing Geely assembly plant. Second, Geely now build a new car assembly plant in Zhaijakao, to open in 2017. These cars will be designed and developed by their joint R&D center CEVT in Sweden (see above), and will be equipped with the new generation of E-Drive engines. These will be delivered by VCCs from their new engine plant located just outside Geely's factory gate in Zhaijakao. The third example of collocation is found in Luquio, where Geely also build a new assembly that will open in 2017. This plant will be owned by Geely, but operated and managed by Volvo, who will produce new Geely models, based on the CMA platform developed at CEVT. Thus, it is clear that Geely has an ambition to collocate their recent car assembly plants with VCC's operations, which can generate scale economies, synergies and learning opportunities in production and sourcing. At the same time, this contribute to a further over capacity of Geely's production resources, a growing number of manufacturing plants with less than optimal size, and a geographically very dispersed location pattern of manufacturing sites, with negative coordination and management effects.

Exploiting International Opportunities

With some 90 per cent of production and sales in China, Geely is still oriented towards its home market. However, through its international acquisitions of strategic assets, the company has been able to strengthen its position outside China. There are several indications of this shift.

First, as reported above, Geely and VCC established a joint R&D center, CEVT, in Gothenburg, giving Geely access to technological resources and capabilities found in one of Europe’s largest and most dynamic automotive clusters, and provides Geely with key technologies for developing cars, not

only for the domestics market in China but also for international markets. This will contribute to fulfill Geely's ambition to become a key domestic automotive company, as well as the leading exporter of cars from China.

Second, Geely's export share is gradually increasing (see Table III, above). Export of Geely car models are directed towards around 40 countries, predominantly other emerging or developing countries, where Russia, Ukraine, Saudi Arabia, Iran, and Egypt account for around 75 per cent of the company's exports. Geely has also a number of assembly plants in various countries in order to increase its foreign sales, mainly through JVs or contract manufacturing with local partners. Most of this is found in developing countries in Africa (Egypt, Ethiopia), Latin America (Uruguay), Asia (Sri Lanka, Indonesia), and Eastern Europe (Russia, the Ukraine, Belarus).

Third, Geely is underway to expand into the larger and more demanding markets in Europe and North America. This is illustrated by the fact that VCC, as the first established car brand in China, started to export to US from its Chengdu plant in mid-2015, and will also build a manufacturing plant in the US (Charleston, South Carolina), to open in early 2018. Geely's optimism about entering the strategically important US and European markets is also nurtured by its plans to introduce a small crossover utility vehicle based on the CMA and engine technologies that Geely has developed with VCC at the R&D center in Gothenburg. Geely plan to position itself as a producer of affordable, high-tech cars by exporting an alternative-fuel version to some European markets (e.g., Spain, Portugal, Italy, the UK, and Eastern Europe) before trying to introduce more mainstream gasoline-fueled cars to Europe and, eventually, to the US. There are even rumors that Geely and VCC are discussing setting up a joint assembly plant in the US (Reuters 2015).

Benefits and costs of political embeddedness when exploiting opportunities abroad

Given that Geely's international exploitation of its acquired assets is still in its early stages, the empirical evidence of the extent to which Geely's internationalization has benefitted from its political connections in China is less clear. However, the national government provided necessary permissions to invest abroad, making possible the acquisition and further investments in Megan Bronze, ICC, Emerald and VCC, and more recently the VCCs expansion into the US. Also Geely's export adventure has benefited from export licensees, export financing, permission to buy foreign exchange for OFDI, and permission to reinvest profits generated abroad. Many of the regulatory and fiscal measures that support OFDI and China's "go out" strategy (Buckley et al. 2008; SAT, 2007) target particular sectors or activities rather than individual firms. Notably, Li Shufu and other representatives of the Chinese business elite (such as Li Dongsheng, President of TCL) are actively encouraging the government to support OFDI and liberalize its regulation (Sauvant and Chen, 2014).

Whereas close political links at home may be an asset when it comes to entry into and penetration of other emerging markets, it may be a liability in relation to advanced, Western markets. The political "establishment" and regulators in these markets may not accept privately held EMNEs at face value. Rather, consumers and policymakers are likely to investigate the "independence" of EMNEs, especially with regard to whether their privileges at home could give rise to allegations of unfair competition. Furthermore, the inability of privately held EMNEs to resist pressure from their home governments to pursue politically motivated agendas may be subject to scrutiny. Well known examples of this is the Chinese telecommunication company Huawai who 2014 was banned from bidding for US government contracts because of concerns over espionage. In the case of Volvo and Geely, it remains to be seen to what extent consumers in the USA will accept their cars, either exported from China or assembled locally in the USA. Unsecure legal regulations concerning intellectual property in China has also made

some existing suppliers in Sweden reluctant to sell their latest auto components to VCCs operations in China after the acquisition by Geely, for fear of losing proprietary technology (Swedish Radio 2010).

ANALYSIS AND DISCUSSION

The Geely-Volvo case yields several insights that assist in answering our research questions. First, the case offers insights into how privately held EMNEs can achieve political embeddedness. The Geely case echoes Sun et al.'s (2010: 1163) definition of political embeddedness "as a portfolio of a firm's individual and institutional ties to the constituent parts of the state." Geely's political embeddedness resides at both the interpersonal level in, for example, Li Shufu's strong ties to political actors on the local and central levels, and the inter-organizational level in Geely's organizational ties to political institutions (e.g., in terms of provincial governments' co-ownership of the company).

Second, the case demonstrates how these political connections translate into locational advantages and, in turn, government-supported international expansion. With China as export base Geely has spun a distribution network in a number of emerging markets. Whereas this part of Geely's international expansion is consistent with the institutional void perspective (Cuerzo-Alvaro & Genc, 2008; Cuerzo-Alvaro, 2012) it still remains to be seen if Geely is able to succeed in advanced markets as well. Geely's political embeddedness has paved the way for expansion into advanced markets but this way may end blindly because of the political ties to a political regime to which some governments and customer groups in advanced countries exhibit certain skepticism.

Third, the case provides some insights into the costs and benefits of political embeddedness. Political embeddedness usually elicits benefits but the company (especially the managers) may experience high lobbying costs, may sacrifice economic efficiency in the pursuit of imposed societal and political goals, and may suffer from politically motivated discriminatory treatment in foreign

markets. The case demonstrates that the net benefits of political embeddedness vary considerably depending on which of the three aspects of the springboard perspective are under investigation. Geely's *acquisition* of foreign strategic assets (*in casu* VCC) could not have occurred without political embeddedness and support. The two benefits arising from its political embeddedness – bidding rights and loans from state banks (Khwaja & Mian, 2005; Classens, Feijen & Laeven, 2008) – were imperative for Geely's acquisition of VCC. In this respect, political embeddedness appeared to be an antecedent to Geely's strategic asset seeking. Presumably, the benefits also exceeded the costs in relation to the deployment of strategic assets in the home country of China. New benefits (i.e., investment subsidies, tax exemptions, and approval as a governmental supplier) followed as Geely deployed the strategic assets. These benefits, however, were traded off against costs of lobbying as well as operational inefficiencies in consequence of pursuing societal rather than corporate objectives. In relation to the third aspect of the springboard perspective – the exploitation of the strategic assets on a global scale - the cost-benefit balance is even more so an open question: Geely's export and foreign assembly operations have benefitted from the company's political embeddedness in a number of ways, including approval of FDI expansion, obtainment of export/import licenses, and the granting of tax exemptions. On the negative side, political embeddedness in the home country may appear to be a liability in relation to operations in advanced, western markets. Figure 3 summarizes the costs and benefits of political embeddedness in the three phases, acquisition, deployment at home and exploitation on a global scale.

*** Insert Figure 3 about here ***

Hence, the Geely-Volvo case also illuminates the negative aspects of political embeddedness. As mentioned, Li Shufu presumably spent a great deal of time on political lobbying, which takes attention away from more ordinary management tasks. Furthermore, the case provides evidence of the serious sub-optimization of Geely's car production. The numerous scattered and poorly dimensioned production plants imply lower efficiency, but this may be seen as a necessary payback to the regional and central government for preferential treatment. It is also easy to envisage additional costs as a consequence of Geely's ambitious, high-profile plans for international expansion. The long list of WTO disputes about alleged export dumping by Chinese firms highlights that the political pressure for export success may backfire for Geely in the years to come.[2]

The case also indicates that the internationalization of emerging market firms may reinforce political embeddedness. As already mentioned, Geely could not have acquired its foreign strategic assets (in casu VCC) without political embeddedness. In this respect, political embeddedness appeared to be an antecedent to Geely's strategic asset seeking. However, as Geely progressed in the deployment of the strategic asset at home (and later ventured into exports), its political embeddedness seemed to be reinforced. Therefore, from a broader perspective, one may view Geely's political embeddedness and internationalization as co-evolving.

CONCLUSIONS, LIMITATIONS, AND AVENUES FOR FUTURE RESEARCH

Our study contributes to the understanding of political embeddedness and strategic asset seeking of privately held EMFs in three ways: First, we give substance to the springboard perspective (Lou &

[2] See, for example: Beittenmiller (2015) about the US's WTO dispute with China regarding its "export base" subsidies for auto and auto parts manufacturers

Tung, 2007; Ramamurti, 2012) and the bundling model (Hennart, 2009/2012) by showing how Geely's political connections give access to and thus complement country-specific assets.

Second, we spell out another complementarity – namely in relation to ownership advantages of privately held EMFs: Not only do managers of these EMFs have to navigate eloquently in the political landscape at home[3], they also have to possess international management skills on par with, or better than, their counterparts in MNEs from advanced markets. When possessing these dual skills, privately held EMFs have good prospects of succeeding in the global market. Or, expressed in very bluntly and fairly immodest terms by Li Shufu: "The hope of China's auto industry still lies with the private sector. This is a competitive process: First, SOEs compete with foreign capital, and the SOEs lose. Then foreign capital competes with private [Chinese] enterprises, and the private enterprises win." (Interview with Li Shufu in Economic Observer, March 8, 2009). On an even more general level, this duality of political maneuvering and international management skills seems to resonate with Carney, Gedajlovic and Yang's (2009) sketches of an institutional theory of the Asian enterprise.

Third, and lastly we give insights to the *benefits* as well as the *costs* of political embeddedness and we do this in relation to each of the three phases of strategic asset seeking: acquisition, deployment, and international exploitation of strategic assets.

Our study has some limitations. We have focused on strategic asset seeking by one company (Geely) in one industry (the automotive industry) in one emerging economy. As such, one may query the external validity of the study. We have indicated that our findings only apply to private-held

[3] As expressed in apposite manner by Luo and Tung (2007, p. 493): "Unlike their counterparts in advanced markets…, corporate executives in emerging market MNEs have to skillfully maneuver their strategic choice within their domestic institutional context. They need to find ways of co-opting political support that has given them the freedom and endorsement to pursue international expansion strategies of their own choosing."

EMNEs with large home markets; but the limits of our study may go further than that. As an example, the insights of our study may not be valid for industries in emerging markets that are subject to less regulation than is the case of the Chinese automotive industry. Furthermore, our discussion of the cost-benefits of political embeddedness in relation to the exploitation of strategic assets in advanced market is rather speculative and not based on empirical observations. In the case of Geely, it still remains to be seen what impact the company's political embeddedness will have on its forthcoming expansion into these markets. It may also count as a limitation that the general analytical framework of our study uses the EMNE lens. Alternatively, we could have chosen to apply a dyadic approach that would encompass the perspectives of both the acquiring EMNE and the acquired MNE (i.e., Geely and VCC, respectively). The case suggests that the acquisition has thus far been a win-win scenario, as Geely has managed to leverage the acquired VCC assets in its home market, and VCC has developed stronger R&D capabilities through Li Shufu's non-interventionist corporate leadership and its access to abundant financial resources, which are in clear contrast to the meager, interventionist years under the ownership of the Ford Motor Company. At the same time, the Geely-Volvo case adds a dynamic and wide-ranging aspect to the springboard perspective: not only have the acquired assets been deployed and leveraged in this EMNE's home country, but the assets have been *further developed* on a large scale. As mentioned in the case, CEVT has expanded much faster than expected, such that it was one of the largest auto-competence centers in Europe by mid-2015. Hence, in a dynamic perspective the most valuable assets acquired by Geely may not be the Volvo brand and technology but rather the new capabilities that Volvo and Geely employees develop together.

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Table I. Company visits and personal interviews in Sweden and China 2011-2015.

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

Table II. Total sales of Geely cars, 2010-2015

	2010	2011	2012	2013	2014	2015
Total sales (units)	416,000	422,000	483,000	550,000	418,000	510,000
Exports (%)	5%	9%	21%	22%	14%	5%

Source: Geely

Table III. Volvo Cars' sales in major markets in thousands and % of world sales, 2006-2015

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

Source: Volvo Cars

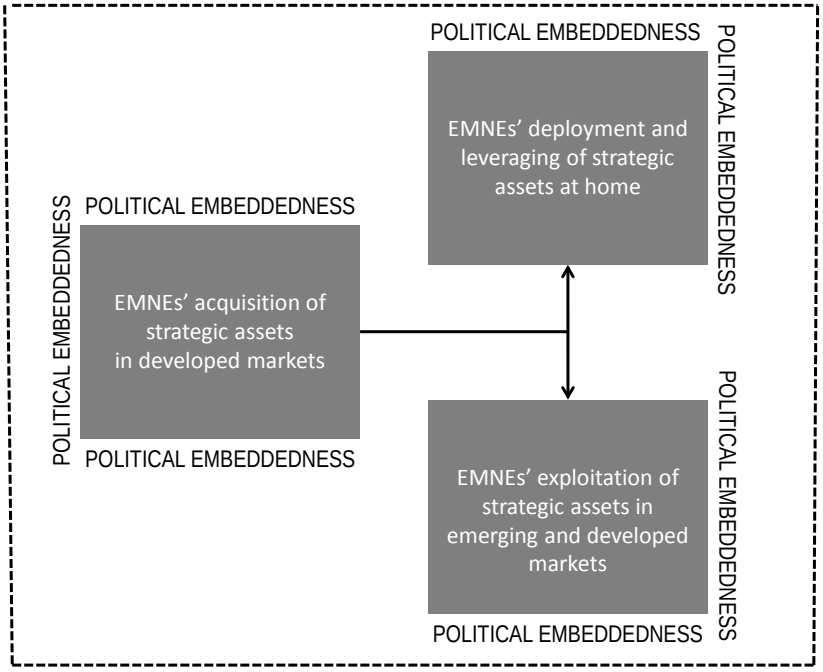

Figure 1. Analytical framework of the study

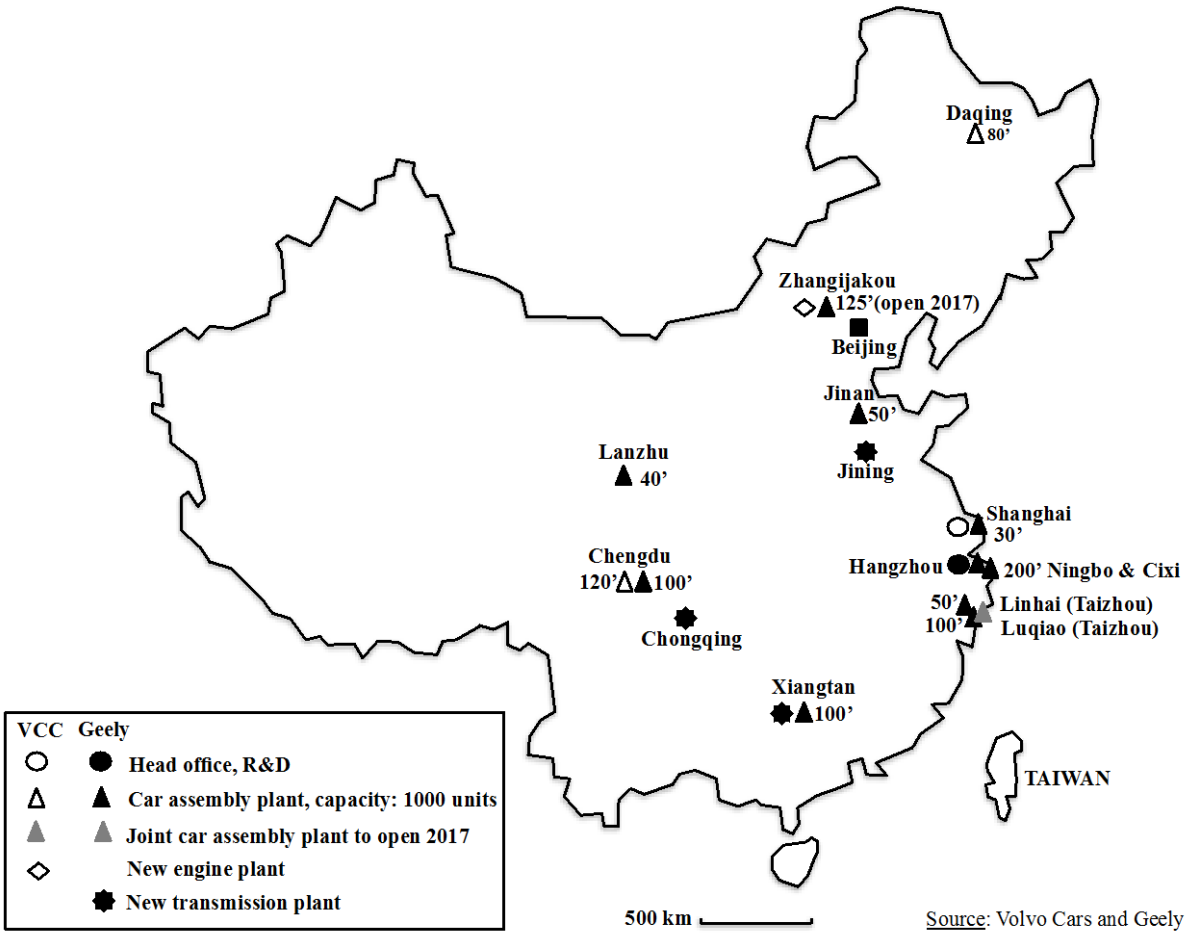

Figure 2. Major locations of Volvo Cars Corporation and Geely Automotive in China, 2015 (Source: Various websites of Geely and VCC)

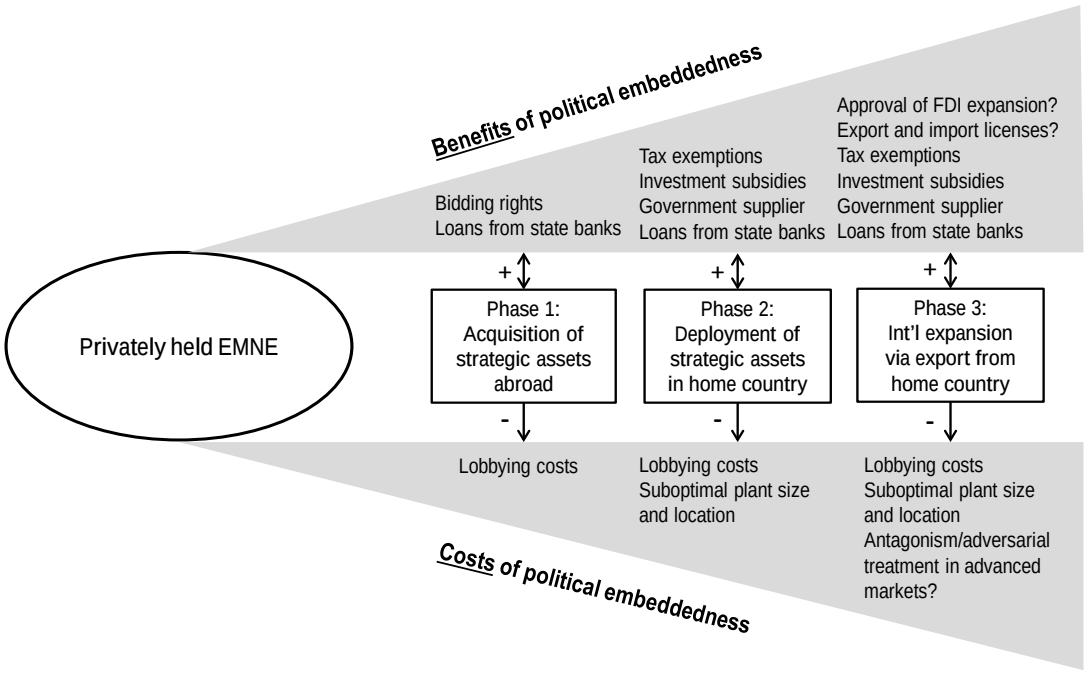

Figure 3. Costs and benefits of political embeddedness in different phases of a private-held EMNE's strategic asset seeking.