Political Embeddedness and Strategic Asset Seeking of a Privately Held Emerging Economy Firm: Geely's Acquisition of Volvo Cars Corporation

Abstract

Political embeddedness in the home country appears as an important key to understanding emerging economy firms' internationalization – in particular trajectories involving strategic asset seeking abroad. A longitudinal study of Geely's transformation from a local to a global Chinese, privately held company in the automotive industry sheds light on political embeddedness as a multifaceted process phenomenon and a probable antecedent to, as well as an outcome of, strategic asset seeking. Hence, a process of political embeddedness preceded Geely's acquisition of Volvo Cars Corporation (VCC), but this and prior acquisitions seem to have furthered Geely's recent position as a 'national champion' in the Chinese automotive industry. The Geely internationalization case points to personal and organizational bonding with local and central political actors and government officials as important complements to the general management capabilities of privately held multinationals from emerging economies.

Introduction

Apparently, the acquisition of Volvo Cars Corporation (VCC) by Zheijiang Geely Holding (henceforward just Geely) in 2010 was against all odds. The Chinese government approved Geely – and not other attentive, state-owned car producers like Chang'an or Dongfeng - as the sole bidder when VCC's owner, the Ford Motor Co., put the Swedish-based company at sale (Reuters, 2009). The bidding approval was remarkable inasmuch as Geely was a private 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 new player in the industry would encroach on this policy. Notwithstanding, Geely's CEO and majority shareholder, Mr. Li Shufu, managed to build strong ties to local political actors and, in turn, key decision-makers in the central government of China. Subsequently, and even more remarkable, Li Shufu succeeded, after a few tough years, in obtaining preferential treatment for 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 emerging economy firms achieve political embeddedness (Sun, Mellahi and Thun, 2010) in their home market? Second, what are the cost-benefits of political embeddedness? Political embeddedness usually elicits benefits, but, in return, the beneficiary company may sacrifice on economic efficiency in a pursuit of imposed societal and political goals. Third, is political embeddedness an antecedent to emerging markets firms' internationalization in general and strategic asset seeking in particular? Fourth and lastly, does internationalization of emerging market firms reinforce political embeddedness?

By following Geely on close hold before and after its acquisition of Volvo we have gained some insights which, in conjunction with findings from previous studies of emerging economy firms' internationalization and political embeddedness, may bring us closer to an answering of the four, above research questions. The motivation of our study is to bring more attention to the internationalization of privately held firms in emerging economies which, in contrast to the internationalization of state-owned enterprises (SOEs), is a somewhat under-researched phenomenon. We have a particular interest in explaining strategic asset seeking of privately held emerging economy firms (EMFs) in the *springboard perspective* (Luo and Tung, 2007; Ramarmurti, 2012). The springboard perspective submits that EMFs acquire strategic assets in developed markets not only to attain competitiveness in developed markets, but also – and, perhaps, mainly – for use in their high-growth home markets where they are well-entrenched and enjoy a privileged insider status.

Whereas the home court advantage of emerging market multinational enterprises (EMNEs) seems pretty straightforward for state-owned MNEs it is far more questionable if, and to what extent, privately held EMNEs benefit from such an advantage. In other words, it is up for discussion if the springboard perspective also applies to privately held EMNEs (and not only to SOEs). If so, it furthermore appears evident to inquire how these private firms achieve a home court advantage that goes beyond that of language and cultural barriers against foreign, entrant firms. We here subscribe to the general contention that a key characteristic of emerging economies is the strong state regulation that usually prevails in all parts of the national economy (e.g., Henisz & Zelner, 2005; Kostova, 1997; Kostova & Zaheer, 1999). Hence, the private sector in emerging economies is, in general, regulated to a higher degree than is seen in developed economies, and 'independent' and 'private' firms are to a large extent dependent on, and often in symbiosis with, the state (Alvstam and Ivarsson, 2014). Without the endorsement of the state, both on local and central level, privately held firms are in a difficult economic situation that tends to deprive them from any home court advantages (Alvstam and 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.

On this background the paper is organized as follows. After this introductory section (Section 1) we make a literature review (Section 2) of the springboard perspective – including an account for its core concepts, namely strategic asset seeking and its antecedents: home court advantage through political embeddedness. We submit our definitions of these core concepts as used in this paper and concludes the section by providing a conceptual framework for our case analysis (of Geely's acquisition of VCC). The next section (Section 3) makes up the first part of the case analysis by accounting for our case methodology and providing a narrative of Geely's genesis as well as its entry into the Chinese and international automotive industry. In the following case analysis (Section 4) we address the four research question raised in the introduction. A conclusion and discussion of limitations and further research avenues finalize the paper (Section 5).

Literature Review

Several IB scholars have pointed to political embeddedness at home as key to understanding the internationalization of emerging market firms – in particular internationalization trajectories involving strategic asset seeking. Hence, the springboard perspective (Luo & Tung, 2007; Ramamurti, 2012; Hertenstein and Williamson, 2013) submits that EMNEs acquire strategic assets in developed markets not only to attain competitiveness in developed markets, but also – and, perhaps, mainly – for use in their home markets. Hence, Ramamurti (2012, p. 43) referred to the springboard perspective in the following way:

> EMNEs [Emerging Market Multinational Enterprises] 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.

It goes without saying that local firms in emerging markets hold an advantage over foreign firms in terms of language, culture, business practice, and non-exposure to foreign-exchange risks - but not necessarily in terms of non-discriminatory treatment by national authorities. Hence, local firms may experience direct or indirect discrimination from the authorities when it comes to the exploitation of strategic assets acquired in foreign markets. But what do we mean by 'strategic assets'?

Strategic assets

The springboard perspective aims to explain EMNEs' acquisitions of strategic assets in developed markets. However, what does the term "strategic assets" include? Our answer to this question 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 & Lundan, 2008). In this categorization, the strategic-asset motive pertains to FDI that intends to add assets to the acquiring firms' existing portfolios that "they perceive will either sustain or strengthen their overall competitive position, or weaken that of their competitors" (Dunning, 1993 p. 60). In a similar vein, Makino, Lau and Yeh (2002), and Wesson (1993) distinguish between asset-exploiting and asset-augmenting FDI, where the latter emphasizes the needs of firms, particularly firms from emerging markets, to gain access to new technologies and organizational capabilities. In terms of overseas R&D investments, Dunning and Narula (1996) develop dichotomies of asset-exploiting and asset-seeking investments. In addition, Kuemmerle (1999) contrasts home-base-exploiting with home-base-augmenting R&D activities, and points out the growing significance of augmenting existing assets by absorbing and acquiring technological spillovers arising from agglomerative effects in specific sectors, specific companies, or others 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 submit 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

[1] Dunning's (1993) FDI motives concern only assets *owned* by the MNE. However, by obtaining user rights, e.g., 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.

should be labeled "strategic". One example would be the undertaking of FDI in a competitor's home market in order retaliate against or prevent that competitor's entry into the MNC's own, lucrative home market (Graham, 1974, 1978; Knickerbocker, 1973). Other examples of strategic asset seeking of particular relevance to the springboard perspective are the acquisition (or leasing/licensing) of technologies or brands in foreign markets for use in the home market and the strengthening of a consumer brand through the opening of outlets in prestigious locations, such as Milan, New York, or Paris.[2]

In contrast to the exploratory and augmenting nature of strategic asset seeking, the three other FDI motives – market seeking, resource seeking, and efficiency seeking – pertain to foreign assets acquired with the aim of immediate, on-location exploitation. A sales subsidiary FDI is motivated by market seeking and it executes immediate, on-site exploitation of an ownership advantage. Resource seeking occurs when, for example, an MNC acquires an iron mine concession. Such assets may or may not yield an ownership advantage (depending on the circumstances under which the concession is acquired), but they are subject to immediate exploitation.[3] Assets acquired in conjunction with efficiency-seeking FDI may pertain to firm- and country-specific advantages (e.g., operational flexibility and low labor costs, respectively). Nevertheless, regardless of which of the two advantages are exploited, the asset's payoff is on site and immediate rather than off site (in another country) and in the future.

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

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[2] *Natura*, the largest producer of cosmetics and market leader in Brazil, serves as an illustration of the latter. In 2005, *Natura* opened a flagship shop in Paris. Although this move might sound ordinary in the context of increasing globalization and internationalization among emerging economy firms, two factors seem of particular relevance. First, flagship shops are not *Natura*'s major sales channel or expertise. Since the company began internationalizing in the 1970s, it has mainly operated through direct-sales channels. Second, although the company has consistently invested in foreign operations in the last decade (which accounted for 12.3% of its revenues in 2012; EXAME, 2013), such investments were mainly targeted at countries in Latin America. To date, France is the only country outside Latin America in which the company owns sales facilities.

[3] The much vaunted Chinese FDI in natural resource extraction in Africa may constitute strategic assets from a state or government perspective, but less so from the perspective of the individual Chinese MNEs (unless, of course, they are SOEs).

With this definition in place we can now return to the springboard perspective and consult the literature as to explanations of why EMNEs are in a position to leverage these strategic assets in their home market. 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. (2007, p. 484-485)

Political embeddedness

It goes without saying that local firms in emerging markets hold an advantage over foreign firms in terms of language, culture, business practice, and non-exposure to foreign-exchange risks - but not necessarily in terms of non-discriminatory treatment by national authorities. Hence, local firms may experience direct or indirect discrimination from the authorities when it comes to the exploitation of strategic assets acquired in foreign markets. This has to do with one of the main characteristics of emerging markets, namely 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 (Gaur *et al*., 2011; Luo, Xue, & Han, 2010; Ren & Zheng, 2012; *The Economist*, 2010), 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 (OECD, 2009) champions as companies in emerging markets that are especially 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 otherwise dominant multinational enterprises from developed markets. Consider China's Lenovo as an example. Despite its impressive globalization, Lenovo is still considered to be a "national champion", as it is heavily reliant on profits from the domestic Chinese market to finance its overseas expansion (Deng, 2012; *The Economist*, 2013).

We should emphasize, not least because of our private firm focus, that the "national champion" qualification is not reserved for SOEs, as any company with strong links to the "political elite" may be eligible for this status (Alvstam and Ivarsson, 2014). As an example, an EMNE affiliated a business group may qualify as a national

champion. Business groups are defined as "firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action" (Khanna & Rivkin, 2001:47-48). As 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.[4]

Hence, the home market advantage of EMFs is not just a matter of (degree of) state ownership, but associated with a more subtle concept, namely political embeddedness (Sun et al., 2010). Conventional wisdom generally suggests that home market performance of an EMF strongly correlates with its degree of political embeddedness – which not necessarily or exclusively connects to state ownership. We adopt 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." It follows from this definition that political embeddedness resides both at the interpersonal level – managerial ties to political actors – and at the inter-organizational level- organizational ties to political institutions, including government bodies on central and local level. Looking at firms in general (not only EMFs), the degree of political embeddedness varies significantly and can be operationalized as the total number of and strength of ties between business firms and the key political institutions and actors (Baum and Oliver, 1992; Hung, 2005). The financial benefits of political embeddedness in emerging markets have been estimated to be substantial by a number of empirical studies of both local firms (Michelson, 2007; Peng and Luo, 2000) and foreign firms (Henisz, 2000; Luo, 2001/2007; Zhao, Anand and Mitchell, 2005). On the flip side, the political embeddedness of a firm may become harmful if the political landscape shifts dramatically and the political elites to whom it is tied loses power (Fisman, 2001; Sun et al., 2010). However, there seems to be little known about the financial *costs* of political embeddedness in a stable political landscape. We would intuitively

[4] In some emerging markets, business groups constitute a dominant feature of the private sector (Carney, Gedajlovic, Heugens, van Essen, & van Oosterhout, 2011; Kumar, Gaur, & Pattnaik, 2012; Xavier, Camilo, Bandeira-de-Mello, & Marcon, 2014). In China, business groups have grown from being non-existent three decades ago to a point where the revenues of the largest 500 business groups contribute about two-thirds of the country's industrial output (Yiu, 2010). The Chinese government has selected the largest 100 business groups as "trial business groups" for internationalization. These business groups are collectively referred to as "national teams" (Nolan, 2001; Sutherland, 2009) and they are directly overseen and nurtured by the State Council. They receive special treatment in the internationalization process, such as smooth processing of their outward FDI project applications, access to foreign currencies (low-interest funding from state-owned banks), direct and indirect subsidies, and domestic tax breaks. As a result of this preferential treatment, business groups dominate China's outward FDI, making up 75% of the total. In 2008, 36 of the 40 largest Chinese MNCs (in terms of FDI assets) were affiliated business groups (Yiu, 2010).

associate political embeddedness not only with benefits, but also with *costs* in terms of managers' time and effort spent on political lobbying and sacrifice of operational efficiency in the fulfilment of socio-economic goals imposed by the political elite. Presumably, the benefits of political embeddedness in most cases more than make up for these costs, but it an intriguing question what the benefits are net of the costs. Our research into this question is also responding to Peng and Zhou's (2005) call for the undertaking of more disaggregate and contextual analyses in order to examine the (net) performance effects of network embeddedness in emerging markets.

Analytical framework

The literature review gave some insights as to the interrelatedness of strategic asset seeking of EMFs and their political embeddedness at home. The springboard perspective stresses this connection, more or less implicitly assuming that the benefits this embeddedness (in terms of various protective measures) harness the home market. The literature review also informed us about *how* this political embeddedness came about. However, the review demonstrated that these insights mainly connected to state-owned EMNEs and MNEs from developed countries – less so to privately held EMNEs. Furthermore, extant research connects the downsides of political embeddedness to major shifts in the political regime – not so much to the general costs associated with political embeddedness. Our study aims to help filling these two knowledge gaps regarding how privately held EMFs can achieve political embeddedness and what the downsides are in terms of costs directly related to the achievement of political embeddedness – basically costs of lobbying – and indirect costs associated with the deployment of the strategic assets in a suboptimal way; such as penalty costs and extra transportation cost incurred as a consequence of locating production plants in remote industrial zones on the request of local and central government bodies.

*** Insert Figure 1 about here ***

Figure 1 illustrates this cost-benefit approach to political embeddedness which we adopt as a fairly simple analytical framework. The cost-benefit analysis includes two phases: The first phase revolves around the acquisition of foreign strategic assets (effectively an FDI) by the privately held EMNE, the second around the deployment of these assets in the home country. The two phases are facilitated, if not contingent on, the benefits brought about political embeddedness of the private EMF. However, the acquisition and deployment of the strategic assets may also, in their own right, promote political embeddedness. This dual causality is indicated by the two-way arrows in the figure. On the cost side, the arrows go only in one direction. This should be

understood in the way that acquisition and deployment of strategic assets on the one side require and stimulate beneficial treatment associated with political embeddedness, but on the other (negative) side associate with various costs of political embeddedness. The triangle area indicating the costs of political embeddedness are smaller and more shaded than that of the triangle signifying the benefits of political embeddedness. This is suggesting two things: (1) Our basic assumption is that political embeddedness is an asset and not a liability, saying that the benefits as a general rule will exceed the costs; (2) Compared to the *benefits* of political embeddedness the *costs* make up the more unexplored part – confer the literature review. A main purpose of our case analysis is to shed light on what these costs and benefits may be more precisely.

The Geely-Volvo Case

Methodology

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 strategic asset seeking of EMNEs than previous theory-based models in this field. This purpose is mirrored in our use of the Geely case. The case is used to show how some of the theoretical constructs interact in practice and how these interactions have inspired the development of our framework. Therefore, our contribution is not developed strictly according to the principles of grounded theory (Strauss and Corbin, 1990). It encompasses elements of an inductive approach (i.e., the researcher focuses on gaining an understanding of the events around him/her before settling on hypotheses), as we have known and followed the firm for a number of years through a dialogue with several of its senior managers. This longitudinal perspective is important, as it has enabled 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, we have been influenced by deductive methodology. From the outset of our investigation, we were inspired by the theoretical foundations incorporated in the model, i.e., the literature on internationalization of emerging economy firms. This movement from theory to empirics, and the use of theory to operationalize concepts, is essentially deduction.

In sum, the study and the use of the Geely-Volvo case are partly inductive and partly deductive. Our use of the findings from the case is guided by extant theories. However, the information emerging from Geely's acquisition

and deployment at home of foreign strategic assets 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: 536).

Data to the case study has been compiled through secondary sources as well as through many personal interviews between 2009-2015 with company managers at Volvo Cars Corporation, both at their corporate head office, and at their R&D center, CEVT, operated together with Geely in Gothenburg, Sweden. In addition, interviews has also been made during visits to Volvo Cars' units in China, including their Chinese head office in Shanghai (Jiading and Pudong), and at their car assembly plants in Chengdu and Daqing as well as their engine factory in Zhangjiakou. We also made interviews at one of Volvo Cars minority owner, the State Asset Operation Co. in Daqing City, China.

Geely's early years: The start and expansion

Below we provide an account of Geelys early development and the key support they received from local and national governments. Most of this is based on a detailed analysis of the development of Chinas automotive industry by Anderson (2012, especially pp. 137-187). In the early 1980s, Li Shufu operated a small photo business in his hometown Taizhou in Zheijang Province. Based on saving from this, together with loans from friends and relatives, he began to produce refrigerator components, and in 1986 Geely was established as a private company. Initially it focused on the production of refrigerators for the Chinese market and later also of decorating materials, but this business was soon forced to close due to policy regulations. Instead, in 1994, Li Shufu bought a bankrupt SOE and started to produce motorcycle parts and step-through scooters by using local competence in plastic molding among companies in his home province Zheijang, and soon became one of Chinas largest motorcycle producers with exports to over 20 countries. He had also the ambition to produce cars, but during this time, the Chinese government exclusively supported the large state-owned car producers (and their JV partners), and the Ministry of Machine Building repeatedly disapproved Geely's and other private companies' applications to starting car production. Instead, in 1996, Li Shufu was able to buy the shareholdings of a manufacturer of small vans and microbuses located in Deyang, just outside Chengdu, in Sichuan province. This was a state-owned, prison-run company that was almost bankrupt, but it held an important asset in terms of

a certificate to produce vehicles in Sichuan province. Although this license did not include the right to produce passenger cars, Geely’s idea was to start production of top-end cars resembling Mercedes Benz and other international brands. However, Geely lacked the necessary financial and technological resources, and instead began to copy more simple models of Daihatsu that was produced by the company Xiali in Tianjin Municipality, south of Beijing, under license from Toyota. During this time, it seem that the Zheijang provincial government was instrumental in helping Geely to receive the necessary licenses from the Ministry of Machine Building to produce passenger cars, and in addition, to set up the production in Zheijang province, instead of Sichuan. In 1997 Geely could officially launch its automotive business and in 1998, the first Geely car, a Haoqing SRV, rolled of the assembly line in the newly built plant in Linhai in Li Shufu’s home town Taizhou. During this early period of Geely's development at the end of 1990s, important capital injection was received from the local government in Taizhou, who sold public land to Geely, which thereafter sold to real estate developers at market prices, contributing around 1 billion RMB to Geely’s balance sheet. In addition, the local government also provided Geely with tax breaks of around 80 million RMB per year

Despite being a small and newly established car manufacturer, Geely was able to grow its car production, and in 2001 it became officially recognized and included in China's automobile manufacturing index. In 2002 Li Shufu appointed a former accountant from the Zheijang Provincial Local Tax Bureau to be President of Geely. This helped Geely to establish important contacts to many banks at the provincial level, which soon resulted in a loan of RMB 100 million, and another significant agreement with China Everbright Bank, one of the largest SOE banks in China. This helped Geely to further expand their car manufacturing, and to grow to one of the major Chinese car companies. This growth was based on a clear strategy to focus on very simple cars at the lowest price segments, and by targeting first-time buyers in the growing Chinese middle class preferably living in more peripheral cities and in the countryside, hence avoiding competition from the larger SOEs and their international joint-ventures (JVs). Since Geely and other Chinese car manufacturers had a weak design capacity, another strategy was to borrow and copy design from existing international car models. In 2003, Toyota filed a lawsuit in Chinese court against Geely who was accused to use a logo on one of their models that was similar to Toyota's. Many international companies closely followed this trial and saw it as a test of China's willingness to protect intellectual property. The court ruled against Toyota, based on the motive that their logo could not be seen as well known, in China, and therefore did not need protection. Later, Geely was accused to continue using logos and design from other well-established brands, such as Mercedes.

To finance Geely’s expansion more capital was needed. Therefore, in 2004 Li Shufu bought a shell company in Hong Kong, and in 2005 Geely Holding Group was listed on the Hong Kong Stock Exchange through an Initial Public Offering (IPO). This listing generated HK$2 billion in capital in 2007 and was also an important step to

be recognized by the larger investment banks, e.g. by Goldman Sachs who made an investment of USD 334 million in 2009.

By this time, Geely had also generated increased interest from the national government. One example of this was a visit in 2009 to one of Geely's factories by the acting Prime Minister Wen Jiabao, who was cited in the press to have encouraged Li Shufu to send a special report to the State Council and promised to continue to support Geely's industrial development. The listing of Geely on the HK Stock exchange in 2005, and the fact that Geely Holding has been incorporated in the Cayman Island since 1990, also required permissions from the national government, and without such support it would have not been possible to partly finance Geely's expansion through loans from state-owned banks.

Geely's later development: Strategic asset seeking FDI

Geely has grown to one of Chinas major national car producer within a short period of time, and it is the only major Chinese car company without formal ties to the state. Currently the company have around 18 000 employees, with a sales volume of around 420,00 cars in 2014, including some 30 models ranging from small C-class cars to large SUVs, and a market share in China of 3%. The company is headquartered in Hangzhou, Zhejiang Province, where also major R&D facilities are located. Geely has nine integrated production facilities (incl. stamping, welding, painting, engines, gearboxes, assembly), located in various parts of China - see Figure 2.

*** Insert Figure 2 about here ***

Geely has also expanded internationally, where acquisitions to access to new technology has been an important motive. A first foreign acquisition was made in 2006, when Geely bought 23 per cent of Mangane Bronz Holding from UK who produced the London Black Cab. Together, they formed a joint venture in China and set up a manufacturing plant in Shanghai for the production and exports of completely knocked down (CKD) Black Cabs for assembly in the UK. In 2013 Geely bought the remaining shares and became the full owner of Manganese Bronze, and in 2015 announced that they will build a new assembly plant in Coventry, UK for the production of these cars.

A more important strategic acquisition by Geely was made in 2009 when they acquired Drivetrain Systems International (DSI) from Australia, one of the leading global producers of automatic transmissions. During that

time, all car producers in China had to source advanced gearboxes from foreign companies, but through their acquisition, Geely could open three new local transmission plants in China together with DSI, one at their existing car assembly plant in Xiangtan (Hunan Province), the others in Jining (Shandong Province) and in Chongqing. Hence, Geely became the only domestic producer in China of advanced gearboxes (China.org, 2010). The acquisition also provided access to state-of-the art technology, crucial for building up Geely's own in-house transmission capability that resulted in a launch of their own-developed advanced six-speed gearboxes in 2013.

The clearest step in Geely's strategic asset seeking strategy was taken in 2010, when Geely Holding was able to acquire Volvo Cars Corporation (VCC) from Ford Motor Company (USA). VCC, which originally was established in Gothenburg, Sweden in 1926, was acquired by Ford in 1999 for USD 6.45 bn. Initially, Li Shufu tried to attract financial investors within the Chinese auto industry to raise capital for the acquisition, but did not succeed. 2013, pp. 146-147). Instead, the acquisition of Volvo for USD 1.5 bn was made through a consortium of three investors, with Geely as the majority owner, controlling 51 per cent of the shares, and two local governments as minority owners, where the State Asset Operation Co. in Daqing City, Heilongjiang Province, took a 37 per cent ownership, and Jia'erwo Investment Co., in the City of Jiading, Shanghai, a 12 per cent ownership in VCC. The central government also supported Geely to acquire Volvo. First, by selecting Geely as the sole bidder of Volvo in 2009, in competition with SOEs like Changan and Dongfeng, and private car producers like Cherry (Reuters, 2009). To finance the acquisition in 2010, Geely was also provided a state bank loan of around USD 100 million, and in 2011, Geely received national subsidies valued at USD 140 million, or half of Geely's net profit, which was far more than what any other 'private' firms received (The Economist, 2013). The same year, China Development Bank provided a favorable loan to finance VCCs new business plan, with the company itself as security (Reuters, 2012). China's more recent auto policy has also contributed to help Geely grow, e.g. in 2013 Geely (included Volvo) was put on the list of prioritized government cars (at the expense of international brands (Wall Street Journal, 2013). The same year, China also introduced a new the 'anti-monopoly' policy that in effect increased the cost for foreign auto manufacturers in China, e.g. on spare-parts and dealer networks (Bloomberg, 2014). Geely is now also selected as one of around 10 prioritized car manufacturers to remain when the government makes new attempts to squeeze large foreign and small domestic car manufacturers in order to consolidate the Chinese auto industry. An important market signal was also set out when Geely was selected as the first Chinese brand to be the official car supplier for the APEC meeting in Beijing in 2014 (China Daily, 2014)

At the time of Geely's acquisition, VCC's operations was largely concentrated to Sweden, with head-office, R&D and main car production at their original home-base in Gothenburg, while engine production was carried

out about 150 km to the northeast, in the city of Skövde. Since 1965 VCC also had a manufacturing plant in Ghent, Belgium, mainly for smaller car models, and a minor assembly plant in Malaysia for completely knocked-down (CKD) vehicles, originally set up in 1967. Volvo had only a minor presence in China before Geely's acquisition, mainly through a small volume production (around 10,000 per year) of Volvo cars (mainly the S80L model) through Ford's joint venture with Changan/Mazda in Chongqing, and a general high dependence of Ford for marketing, sales, sourcing etc.

VCC is a globally well-known producer of safe, high-quality cars, including hatchback, sedan and sport utility vehicles (SUVs). They have aspiration to compete in the premium car segment, but are a comparably small-scale producer with around 400,000 units annually and a total work force of around 20,000 persons. The global market share is less than 1 per cent, where the largest sales volumes traditionally have been found in Sweden, and in USA, UK and other European countries.

Geely's objective of the acquisition was to take advantage of the prestigious Volvo brand, both in China and also globally, upgrade existing low-cost Geely models by learning from VCC in terms of safety, product design, environmental technology, functionality, and to rapidly expand VCC in China from a marginal presence by building a large production capacity of Volvo cars for the domestic market. In 2015, these objectives have started to be realized. First, VCC have built a totally new organization in China with around 2,500 employees (see Figure 2).

This include a local head-office in Shanghai (Jiading and Pudong), responsible for product development, sourcing, marketing, sales and human resource management, and a new network of 150 dealers located in all major cities, as well as in many smaller cities. It also include a new industrial footprint, with three newly built manufacturing plants, as well as a new local supplier base, initially responsible for components to existing models (‘carry-over’), in the near future also for the new co-developments for forthcoming models. The manufacturing plants are located in three different parts of China. A first plant was opened in 2013 in Chengdu, Sichuan province in south-west of China, including press, welding, paining and car assembly operations, with a capacity of 120,000 units per year. It is located adjacent to Geely’s firstly established assembly plant, and are mainly producing the S60L model, which is an existing Volvo sedan model, made 15 cm longer to fit the Chinese market. A second plant was opened in 2014 in Daqing, Heilongjiang province in the northeast of China, where one of VCCs minority owners, the Daqing State Asset operations Co. is located. This plant has an initial annual production capacity of 80,000 cars, and also contain press-, welding-, painting- and assembly operations. During a start-up phase Volvo assemble only low volumes of an outgoing SUV model (XC90 Classic), based on CKD vehicles imported from Sweden, but in late 2016 the production will start of Volvo's existing XC60 and the

new S90L model, with a plan to increase the production volumes to around 170,00-180,000 by 2020 (including some exports). The Daqing region is very dependent on the oil industry, and the establishment of this Volvo plant is part of the local government's plan to diversify the economy by building a local automobile industry that also includes a local supply base. The third new manufacturing plant was also opened in 2014, located in Zhangjiakou, Hebei province in north China, around 200 km northwest of Beijing. Here, VCC has started to produce car engines, initially these are imported almost completed ('fully dressed') from VCC in Skövde, Sweden, with addition of small shares of locally sourced parts. In the near future, the plant will be responsible for the full production of engines, including the critical 5C (crankshaft, cylinder block, cylinder head, camshaft, connecting rod), while the castings will be outsourced to external partners in China. The plant will mainly produce smaller engines (3-litre), with a high local content (around 90%). These engines will be used both by Geely and Volvo for their smaller cars produced in China, as well as exported to Geely's assembly operations outside China, and to Volvo's assembly plant in Ghent Belgium. Initially, Volvo planned to set up the engine plant in Shanghai, but in the same manner as in Daqing, significant subsidies by the city's local government (e.g. tax reductions and investments in infrastructure and plant buildings), and personal contacts with Volvo's majority owner, Li Shufu, affected the decisions in favor of locating the engine plant in Zhangjiakou.

A further investment in production capacity was recently announced by Geely and VCC who will build a new joint manufacturing plant for small cars in China. This plant will be established close to one of Geely's existing assembly plants in Luqiao, Taizhou, Li Shufu's hometown. It is planned to open in 2017 and will be owned by Geely but managed and operated by VCC, who will produce both Volvo and Geely small cars in the same plant, based on a common compact vehicle architecture (CVA) discussed further below.

The new VCC organization in China is part of Volvo's new plan to double their global sales to reach 800,000 units in 2020, of which 200,000 units in China alone. Traditionally, VCC has been very depended on their home region, with around 60 per cent of total sales in Europe (incl. almost 15% in Sweden), throughout the last decade, as can be seen in table 1, below. In addition, USA has traditionally been the largest individual sales market, with over one quarter of VCCs global sales in 2006.

*** Insert Table 1 about here ***

However, the US sales has decreased dramatically, and in 2014 only accounted for 12 per cent of VCCs global

sales. Instead, VCC has increased the sales in China from 31,000 units by the time of Geely's acquisition in 2010 to 81,000 units in 2014, contributing to an all-time high sales figure of 466,000 Volvo cars sold worldwide in 2014. This has also resulted in that China has become Volvo's largest market with 17 per cent of world sales in 2014, ahead of both the home market in Sweden (13%) and the USA (12%).

Technology collaboration

Another key motive of Geely's acquisition of VCC was the possibility to learn from Volvos superior technology in terms of safety, product design, environmental technology and functionality etc. Technology collaboration is of course a sensitive issue, where especially Volvo have been concerned to prevent their well-established brand from being devalued through to close collaboration with Geely, and from both sides it is officially repeated that "Volvo is a Volvo and Geely is a Geely". However, on the ground some substantial collaboration now takes place, where Geely's financial resources and Volvo's technological capabilities are combined to generate strategically important new product developments such as new vehicle architectures. During the Ford era, Volvo's own R&D capacity was gradually reduced and they became heavily dependent on Ford technology, including vehicle platforms and engines. After an initially period of apprehensiveness, the view of Volvo is now that the acquisition by Geely in 2010 has opened up an opportunity to become "technologically independent" again. Geely have made substantial investments since 2010 (some USD11 billion) to finance new product development, for both Volvo and Geely, which mainly are carried out at Volvo's home base in Gothenburg, Sweden. First, Volvo has developed 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), where three or four cylinders generate the same capacity as six-to-eight cylinders normally does. Second, it also include a totally new Scalable Product Architecture (SPA), a modular system with increased capacity compared to earlier "platform" principles making possible the development and production of a large number of car platforms and vehicle models based on a number of common modules and system interfaces (c.f. Modularer Querbaukasten, MQB used by to produce a large range of models and brands within the Volkswagen Group). The SPA will exclusively be used by Volvo and cover all forthcoming larger sedan and SUV models, and began in 2014 with the launch of the new XC90. The third type of new product development is aimed for both Volvo and Geely, and is carried out in a new joint R&D center, China Euro Vehicle Technology (CEVT), opened in 2013 in Lindholmen Science Park, close to VCCs main operations in Gothenburg, Sweden. CEVT focus on product development for smaller cars (C-class) planned to be introduced in 2017. These will be based on a Compact Modular Architecture (CMA) that flexibly can be used to generate both Volvo and Geely small platforms and models in the same manner as the SPA. The basic principle is to share technologies when suitable, while at the

same time generate specific solutions for each brand combining economies of scale and synergies. This is carried out on three levels by using identical interfaces between technologies: First, unique components for each brand with low-cost and premium versions (e.g. rear axles). Second, shared components with ad-on possibilities for premium models (e.g. seats), and third, common components and systems for both brands (e.g., electric /electrical systems).

CEVT have expanded much faster than anticipated in the beginning, and in 2015 they employ around 1 200 engineers in Gothenburg, making it to one of the largest auto competence centers in Europe. CEVT include also some 125 engineers from Geely that will return to China after gaining experience from working in new product development projects together with more experienced Volvo people. In addition, CEVS have also expanded in China with another 500 engineers. This mean that CEVT is no longer only a development center, but increasingly also responsible for product planning, sourcing and production planning of new cars, where CEVT in Gothenburg are responsible for concept development, while prototyping and physical testing is carried out in China, resulting in a very rapid and cost efficient development of new car models. The growth and increased responsibility is also shown by the fact that Geely in mid-2015 placed an order of around ten new complete car models from CEVT (including a small SUV), to be produced in China already by 2016.

According to Volvo, the technology collaboration with Geely needs careful management, as it is a tricky balancing act and cause problems if the technology is not advanced enough for Volvo - or too expensive for Geely. According to Mr Håkan Samuelsson, Volvo Cars, CEO: “Since Volvo cannot afford to be dragged downwards, Geely will move more than us, it has an ambition to move upwards us. There is a limit how big this band of shared products can be.”

In the opinion of Volvo, one of the biggest future challenges will be to meet new emission standards for engines. Currently, Geely’s new EC7 pure electric car has electric technology from Volvo, and Volvo's new Drive-E engine family (see above) will be used both by Volvo and Geely in all of their small C-models, and in all combinations (electric, hybrid, gas, alcohol, petrol, diesel). There are also discussions on joint R&D and production for electric drive systems, and rumors that Volvo and Geely consider to develop a small B-Class (super compact) electric plug-in at CEVT. Other discussions at CEVT include the development of a possible non-electric B-class car for Geely. Finally, in 2012, VCC sold their old (pre-Ford) P2 platform for large cars (e.g. S80, XC90) to Geely, which likely contributed to the fact that Geely could present their first luxury model (the GC9) in 2014. To notice is that this is designed under the leadership of Geely’s new chief designer Peter Horbury, recruited in 2012 directly from VCC where he held the same position.

This technology collaboration between Volvo and Geely also open new sourcing possibilities in China. VCC

sourcing in China has traditionally been marginal, and earlier this was very dependent on the Ford organisation. However, as part of Geely and a new industrial organization in place, China has become the fourth largest sourcing market with around 11 per cent of VCCs global sourcing in 2104. By 2015, VCC have some 230 suppliers of car components, mainly delivering to the Chengdu plant (the Daqing plant is mainly CKD assembly of imported cars). Around 20 per cent of the suppliers are Chinese and 80 per cent are international companies with local operations (including JVs). Currently, the local content is 55-70 per cent depending on the car model, where the aim is to increase this to similar levels as other international companies (over 90%), in order to reduce cost and lead times. In addition, VCC have also around 40 suppliers in China of engine components to the Zhangjiakou plant. Most of these are international suppliers with local operations, while a few are Chinese, mainly delivering simpler parts. Once the engine plant will begin full production, the local content and the number of suppliers will increase, most likely with same proportion between local Chinese and international suppliers with local production.

Increased joint local sourcing in China between Volvo and Geely will be possible, especially related to forthcoming C-class models of both Geely and Volvo, based on their jointly developed CMA platform. These cars will also be produced by Volvo in a new common factory in Taizhou, Zhejiang province, and will have significant shares of components from common suppliers. Today, some of the suppliers are already common, especially international suppliers with local operations who deliver more advanced electrical and electronic parts.

VCC as part of Geely's export strategy as well as setting up car production in the USA

Another interesting aspect of how the acquisition of Volvo Cars has provided Geely with strategic assets is related to the ambition to become Chinas main car exporter, a role that would further strengthen their position as a key domestic automotive company. Geely took a first step to begin export in 2003, when an export agreement with Syria was signed. During the last years, Geely has increased their exports from China from around 20,000 vehicles in 2007 to almost 120,000 in 2013, and now account for around 20 per cent of Chinas total car exports, and in 2013, for the first time, Geely replaced Cherry Automobile as Chinas largest car exporter (China Daily, 2013). Geely's exports are directed to around 40 countries, predominantly other emerging or developing countries, where Russia, Ukraine, Saudi Arabia, Iran and Egypt account for around three quarters of the number of exported cars. Geely has also set up a number of assembly plants in various countries in order to increase their foreign sales, mainly though JVs or contract manufacturing with local partners, and are also mainly found in other developing countries in Africa (Egypt, Ethiopia), Latin America (Uruguay), Asia (Sri Lanka) and East

Europe (Russia, Ukraine, Belarus). However, no car manufacturer in China has so far been able to export their vehicles to the larger demanding markets in Europe or North America to any degree, although this has been an explicit ambition since long. Therefore, the announcement that Volvo will start to export their S60L model to the US from the Chengdu plant in mid-2015 is a very interesting move that are closely followed by many other car companies in China who also contemplate this possibility, but so far have hesitated for the fear of negative markets reactions if consumers believe cars made in China has inferior quality. However, the decision to begin exporting cars to US from China is based on the fact that Volvo have designed and built a new state-of-the-art production capacity in China, based on their globally standardized "Volvo Cars Manufacturing System" (VCMS). Therefore, they are confident that the cars produced in China at least has the same quality as those produced in Europe, hence, Volvo will be the first established car brand in China to start export to the US market: "Volvo is the only company that can use their Chinese factories for export". Beginning in the mid 2015 with small test volumes, VCCs export from China to US are planned to increase to 3,000 cars in 2015, and gradually replace current exports of Volvo S60 from Sweden. The main benefit of exporting cars from China compared to Europe is lower production costs, but also a more stable and predictable exchange rate between the US dollar and the Chinese renminbi.

In addition, very recently Volvo announced they also plan to make a $500 million investment in a new local manufacturing plant in the USA, with the target to produce some 100,000 vehicles of the new XC90 SUV model, beginning in 2018. This could also help Geely to set up car production in the US in the future.

The management of VCC

So far there seem to have been less management problem in the Geely-Volvo case, compared to most JVs between foreign and domestic car producers in China, that normally are characterized by significant tensions over markets, profits, technology and IP rights. According to the expressed opinion of their top management, as a part of Geely, Volvo are now more independent, compared to when they needed to share platforms and other technology with Ford, and also what possibly could have been achieved through alternative external partnerships. The majority owner and Chairman of the Board, Mr. Li Shufu very seldom attend the Board meetings. Instead these are chaired by Mr. Hans Olof Olsson, former CEO of VCC and former Senior Vice President of Ford Motor Co. The Chinese minority owners are not represented in the VCC board. Mr Freeman Shen, originally from Geely, and appointed the first CEO of VCC China in 2010 (sole Chinese in top management), was replaced in the beginning of 2013 by Mr. Lars Danielsson, (a VCC old timer). CEVT, the joint R&D center in Gothenburg is also mainly managed by a Volvo team.

Cost of political embeddedness

As we have shown above, Geely has been provided with substantial local and central government support throughout the various stages of the firm's development. An important explanation for the support to Geely, and other private car manufacturers, is that it helps both local and central governments to generate jobs and tax incomes, which is important for fulfilling their economic and social objectives. Involving the larger and more successful entrepreneurs in government and political institutions also help ensuring support for the political status quo (Anderson, 2012, pp. 137-186.) Many of the leaders of the larger private car companies have been appointed various political positions at the local and central levels, including Geely's Chairman, Li Shufu, who is a deputy to the People's Congress in his hometown Taizhou, in Zhejiang Province, a member of the Chinese People's Political Consultative Conference (CPPCC), as well as a member of the Communist Party of China (CPC). As long as the objectives of the private entrepreneurs and the political institutions are aligned, it can generate mutual benefits.

To be part of fulfilling local and central governments' economic, social and political objectives can also have a price for private entrepreneurs in terms of less efficient management of their operations. One of the clearer indications of this is a geographical very dispersed location of manufacturing operations, resulting in many smaller production units, operating far below the minimum efficient scale (see fig 2, above). According to the opinion of Volvo managers in China, a preferred annual production volume for a car assembly plant in China today is around 200,000-250,000 units per annum. The capacity of car plants in China is normally only 80,000-100,000, mainly due to national political regulations and local government subsidies. For example, Geely has almost ten car plants in China, when three is sufficient, while Volvo have two assembly plants, although the production volumes would be suitable for only one plant.

A geographically dispersed industrial footprint also result in less efficient internal supply chains with long distances between car assembly and engine production, as well as generating long lead times from external components suppliers, who normally set up dedicated local units close to the assemblers only if the volumes are sufficiently large. Therefore, Geely, Volvo and other smaller car manufacturers need to set up supply chains and logistical solutions through a number of warehouses or distributions centers in various parts of China in order to consolidate deliveries from many geographically dispersed suppliers. The overall management of the operations are also negatively affected through a geographical separations of the manufacturing and administrative units, where Volvo's and Geely's head office functions (inclusive R&D, sourcing, marketing, sales and HR) are located in east china (Shanghai and Hangzhou), far away from many of their manufacturing operations in the

west and north of China.

Discussion

The Geely-Volvo case has yielded several insights of which we would like to highlight three:

First, the case gave insights as to how political embeddedness can be achieved. The Geely case echoed with great clarity 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." Geely's political embeddedness was shown to reside both at the interpersonal level – cf. Li Shufu's strong ties to political actors on local as well as central level – and at the inter-organizational level – Geely's organizational ties to political institutions e.g. in terms of provincial government's co-ownership of the company. The case furthermore informed us about the relationship between political embeddedness and strategic asset seeking. Clearly, Geely's acquisition of foreign strategic assets (*in casu* VCC) could not have taken place without political embeddeness. In this respect political embeddedness appeared as an antecedent to Geely's strategic asset seeking. However, as Geely progressed into deployment of the strategic asset at home (and later on ventured into export) this seemed to reinforce its political embeddedness. So, in a wider perspective one may see Geely's political embeddedness and internationalization as a co-evolution.

Second, the case revealed a longer sequence of phases than indicated in our basic analytical framework (Figure 1). More specifically, a third phase of export from the home country followed the deployment of strategic assets in a Chinese low-cost setting. Today, Geely stands out as the largest car exporter in China. The export phase might be seen as a possible extension of the springboard perspective (Luo and Tung, 2007; Ramarmurti, 2012; Hertenstein and Williamson, 2013) which otherwise primarily has been focusing on strategic asset seeking of EMNEs and not so much on market asset seeking. In his interpretation of the springboard perspective, Ramarmurti wrote:

> When EMNEs from these countries acquire companies abroad, they may appear to engage in market-seeking internationalization when, in fact, they are engaged in strategic asset seeking. Ramarmurti, 2012, p. 43)

On the basis of the Geely-Volvo case we may rephrase this and say that EMNEs *initially* are engaged in strategic asset seeking but *subsequently* – namely after deployment of these assets in their low-cost home base - in market seeking via export as well as FDI.

Third and finally, the case exposed various benefits as well as different costs of political embeddedness in an emergent economy, see Figure 3.

*** Insert Figure 3 about here ***

The two benefits of political embeddedness, bidding rights and loans from state banks, were imperative for Geely's acquisition of VCC. New benefits (investment subsidies, tax exemptions, and license as supplier of cars to government supplier) came to in connection to Geely's deployment of the strategic assets. Since we have no firm evidence we can only speculate about additional privileges in relation to Geely's export adventure and plans of setting up production in the USA, but among the more obvious treats are export licensees, export financing, and permission to buy foreign exchange for OFDI or reinvest profit generated abroad. A great deal of the many regulatory and fiscal measures to support OFDIs and China's 'go out' strategy (Buckley et al., 2007; SAT, 2007) are targeting particular sectors or activities rather than individual firms. However, it is worth noting that Li Shufu together with other representatives of the Chinese business elite (such as Li Dongsheng, President of TCL) is actively encouraging the government to support OFDI and liberalize its regulation (Sauvant & Chen, 2014).

The Geely-Volvo case also illuminated the flip side of political embeddedness. As just mentioned, Li Shufu is spending a great deal of his time doing political lobbying. This, of course, takes away attention from more ordinary management tasks. The case provided evidence of serious sub-optimization of Geely's car production. The numerous scattered and under-dimensioned production plants mean lower efficiency, but may be seem as a necessary pay-back to the local and central government for preferential treatment. It is not difficult to envisage additional costs as a consequence of Geely's very ambitious and high-profiled plans for international expansion. The long list of WTO disputes about alleged export dumping by Chinese firms warns about the political pressure for export success that potentially may fire back on Geely in the years to come.[5]

[5] See, for example: http://www.academia.edu/6861621/WTO_Dispute_Resolution_the_United_States_Dispute_Over_Chinese_Export_Subsidies about United States' WTO dispute with China regarding its' 'export base' subsidies to Chinese auto and auto parts manufacturers.

Conclusions

In this study the springboard perspective proved quite valuable for an understanding of the logics and development of the Geely-Volvo case. Conversely, the case also demonstrated that the springboard perspective is usable for explaining rationalities of strategic asset seeking of state-owned *as well as privately held* EMNEs. The Geely-Volvo case showed that political embeddedness indeed is achievable for private EMFs, but this embeddedness makes a parable with a double-edged sword: it indisputably gives advantages in terms of various financial and regulatory privileges, but the advantages come at a cost. The time and effort spent by Mr. Li Shufu on lobbying in the political sphere is difficult to quantify, but probably considerable. More extant are the sacrificed scale economies and extra logistical costs as a consequence of locating production plants in accordance with political and socio-economic interest rather than efficiency metrics. The lesson from the Geely-Volvo case is that political embeddedness should be seen as a tradeoff between benefits and unescapable costs and the net outcome may not always be positive.

Besides extending the springboard perspective to encompass privately-held EMNEs the Geely-Volvo case also suggests to add a third phase to the acquisition and deployment of foreign assets: namely export from the home country on the basis of the deployed foreign assets. Hence, the springboard perspective sequence commences with an FDI (namely an acquisition of foreign strategic assets) and ends with the deployment (inward internationalization) of these assets, but it may in some instances be apposite to continue the internationalization trajectory into an export venture.

As a final contribution of our study we would like to highlight a possible two-way causality: political embeddedness may espouse internationalization of emerging economy firms – in particular internationalization through strategic asset seeking. But the Geely case indicates that the reverse causality may occur; namely that internationalization may espouse political embeddedness.

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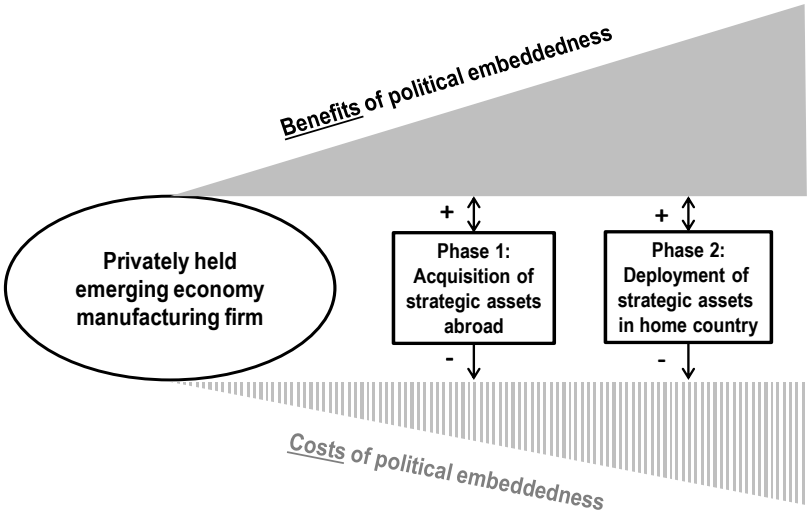

Figure 1. *Analytical framework*

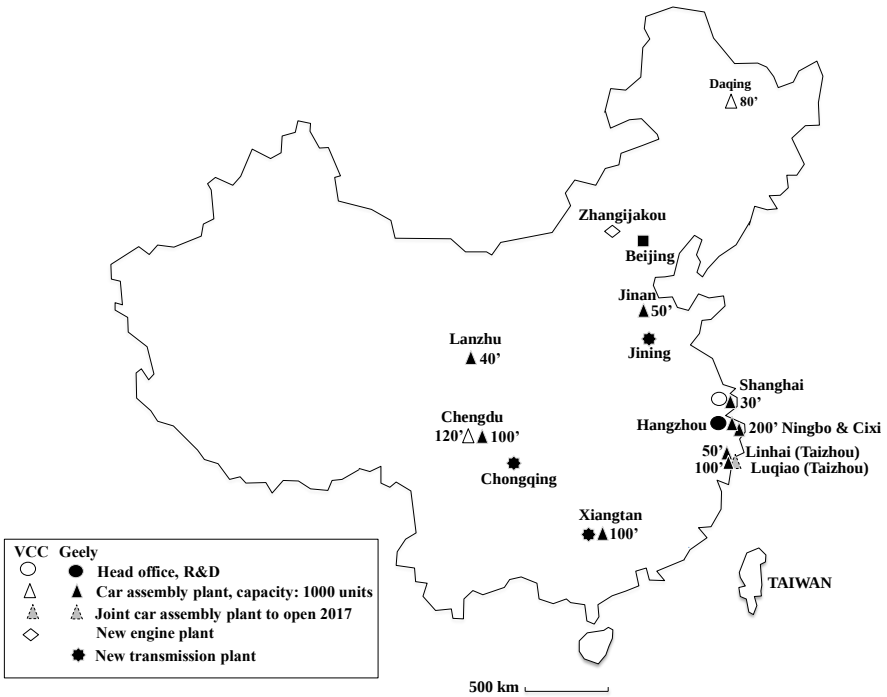

Figure 2. *Major locations of Volvo Cars Corporation and Geely Automotive in China 2015*
(Source: Various websites of Geely and VCC)

Table 1. *Volvo Cars' sales in major markets in thousands and % of world sales, 2006-2014*

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

Source: Volvo Cars

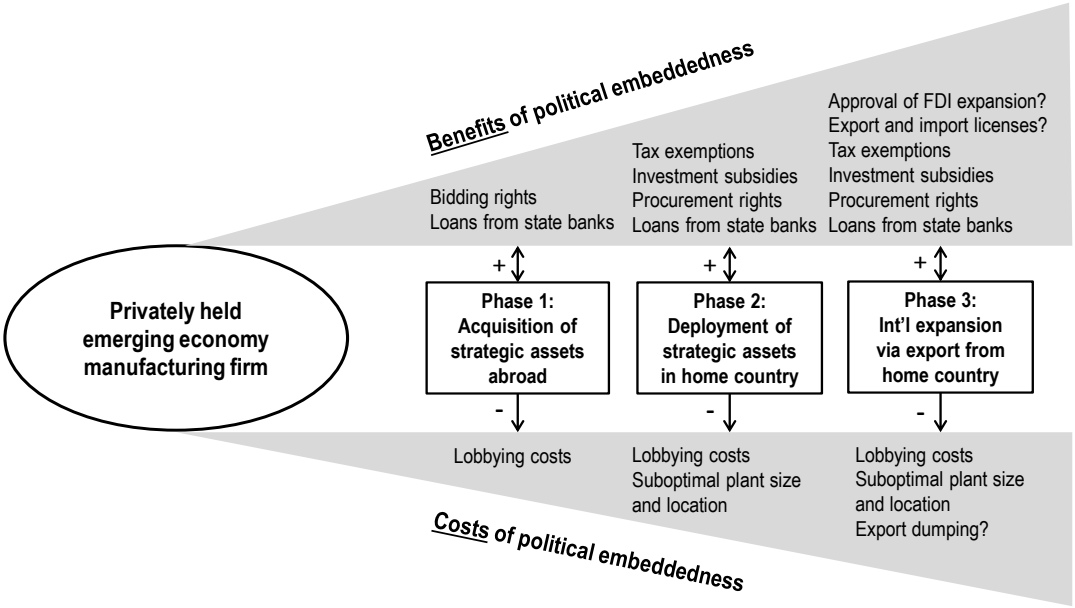

Figure 3. *An extended analytical framework (derived from the Geely-Volvo case)*