

# Servitization in Mergers and Acquisitions: Manufacturing Firms Venturing from Emerging Markets into Advanced Economies

## **Abstract**

We investigate servitization by manufacturing firms that have ventured from emerging markets into advanced economies through mergers and acquisitions (M&A). The study seeks to answer two questions: (a) What is the relationship between M&As and servitization in the case of manufacturing firms? and (b) What are the factors influencing the configuration of servitization strategies and their implementation? The study provides a nuanced and contextualized understanding of servitization in M&As. Existing research on servitization has paid insufficient attention to collaborative partnerships. There is a need to examine the role of servitization in the context of collaborative partnerships. Our empirical setting consists of Chinese manufacturing firms' acquisitions in Germany. Using qualitative research methods, we reveal a typology of servitization strategies - adding, utilizing, and reconfiguring - that underpin the combined influences of different levels of services of both acquirer and target firms in the M&A. We identify integration mode and absorptive capacity as factors influencing service capability development. Our findings contribute to the literature on alternative approaches to servitization by firms from emerging markets venturing into advanced economies. We discuss the theoretical and managerial implications and suggest future research directions for servitization in collaborative partnerships in general and in M&A in particular.

**Keywords:** servitization, M&A, China, Germany, integration mode, absorptive capacity

## **1. Introduction**

Servitization has been receiving increasing scholarly attention because manufacturing firms can use it to gain a competitive advantage (Aquilante, Bustinza Sánchez, & Vendrell-Herrero, 2016; Baines & Lightfoot, 2013; Cusumano, Kahl, & Suarez, 2015) and renew business models (Brax, & Visintin, 2016; Vendrell - Herrero, Parry, Bustinza, & O'Regan, 2014). Recent studies suggest that servitization strategies lead to superior competitiveness (Baines, Ziaee Bigdeli, Bustinza, Shi, Baldwin, & Ridgeway, 2016; Bustinza, Bigdeli, Baines, & Elliot, 2015). But the existing research on servitization focuses largely on firms and industries (Suarez, Cusumano, & Kahl, 2013) without paying much attention to collaborative partnerships. The only study that we are aware of that explicitly addressed the relevance of collaborative partnership examining strategic alliances in servitization is by Paiola et al. (2013). Our study emphasizes the idea that manufacturers can acquire other firms for obtaining the knowledge and skills needed to undertake a product-service strategy through M&A. Given the importance of developing and implementing a servitization strategy for manufacturing firms, there is a need to examine the role of servitization in the context of collaborative partnerships, in response to the recent debate about alternative approaches of servitization (Vendrell - Herrero & Wilson, 2016). Although various studies have revealed the positive effects of servitization, organizations may not necessarily realize its possible benefits because of a lack of understanding of the servitization process. The dissimilar findings reported by the servitization literature may result from the adoption of approaches that ignore the role of different types of collaborative partnerships on subsequent performance. M&As are such partnerships, and an understanding of the M&A process can enhance our understanding of servitization. The present paper represents an initial attempt to investigate servitization strategies at manufacturing firms in emerging markets that venture into advanced economies through mergers and acquisitions (M&A).

Emerging multinational enterprises (EMNEs) venturing into advanced economies emerge as a timely and important phenomenon that contributes to the theoretical refinement of internationalization of firms and has practical implications for firms' globalization endeavors in both emerging and advanced economies (Liu & Vrontis, 2016). M&As form a primary market entry mode for emerging market firms setting up operations abroad (Gomes, Weber, Brown, and Tarba, 2011; Liu & Deng, 2014; Williamson, Ramamurti, Fleury, & Fleury, 2013). This complex management topic raises multi-faceted challenges for managers in both emerging and advanced markets (Weber, Tarba, & Oberg, 2014; Zhang, Ahammad, Tarba, Cooper, Glaister, and Wang, 2015). Emerging market firms venturing into developed markets want to acquire hard technologies to catch up and potentially leapfrog into the advanced markets, as well as soft managerial skills to enhance their global competitiveness (Kumaraswamy, Mudambi, Saranga, & Tripathy, 2012; Luo & Tung, 2007). Therefore, we suggest that these firms provide an important empirical setting that permits to advance the servitization literature both theoretically and empirically.

Chinese cross-border M&As have increased significantly in recent decades, amid the rising of Chinese economy and the globalization endeavors of Chinese firms (Liu & Deng, 2014). Some empirical studies have focused on the motive and strategic intent of Chinese overseas acquisitions and variations of performances (Buckley, Elia, & Kafouros, 2014; Deng & Yang, 2015). But only a few studies have addressed the black box of post-acquisition integration of Chinese overseas acquisitions (Liu & Woywode, 2013). Based on the literature on servitization, our study reveals that Chinese firms can use servitization to leapfrog the global competition through overseas acquisitions. The competitive advantages that manufacturing firms in advanced economies have because of added servitization may be neutralized by firms in emerging markets using overseas acquisitions. Based on the conceptualization of different levels of servitization (Baines & Lightfoot, 2013), the present paper aims to explore

the configuration of servitization strategies and the factors influencing servitization implementation in manufacturing firms that pursue cross-border M&As. By mapping the different levels and combinations of servitization in cross-border M&As, our study provides a nuanced and contextualized understanding of servitization in M&As, and answers two research questions: (a) what is the relationship between M&As and servitization for manufacturing firms? and (b) what are the factors influencing the configuration of servitization strategies and their implementation?

This study contributes in several ways to our understanding of servitization in manufacturing firms venturing from emerging markets into advanced economies. First, [our study provides an analysis of servitization strategies in the context of M&As, and a detailed description of the implementation of servitization strategies by EMNEs in the context of cross-border M&As](#), by conceptualizing a typology of servitization in M&As, which involves *adding, utilizing, and reconfiguring*, depending on the levels of services of both acquirer and target firms. Second, our study sheds light on factors influencing the servitization strategy and its implementation in overseas acquisitions by EMNEs. In particular, our findings suggest that integration mode and absorptive capacity can significantly influence the development of service capability, which in turn affects the configuration of servitization strategies and their implementation in M&As. The realization of the servitization potential of both acquirer and target firms is affected by integration mode and absorptive capacity.

The article is structured as follows: First, we discuss current research on servitization, M&A integration modes, and absorptive capacity, and identify the absence of studies investigating servitization in M&As. Next, we present the research on Chinese overseas acquisitions and describe the research design used in the present study. Subsequently, we present our empirical findings obtained from German manufacturing firms acquired by Chinese firms.

We conclude by outlining the theoretical and managerial implications and by suggesting future research directions.

## **2. Literature Review**

### *2.1 Servitization and M&As*

The literature stream on servitization suggests that firms can move away from selling traditional products to selling combinations of products and services, contributing to the firm's performance and competitiveness (Lee, Yoo, & Kim, 2016; Vendrell - Herrero et al., 2014). The relationship between product-related service offerings and products may complement or serve as a substitute for product, depending on the evolution of the industry to which the firm belongs (Cusumano et al., 2015). Furthermore, industry-specific characteristics require different servitization strategies. For example, software firms turn to services to generate additional profits when their products mature and product revenues and profits decline (Suarez et al., 2013). Raddats, Baines, Burton, Story, & Zolkiewski (2016) on their part underscore the importance of various motivations to servitize that may vary according to product complexity, although cost savings and improved service quality appear important demand-based motivations for all manufacturers. In the music industry, consumer attitudes affect the servitization and value co-production processes (Parry, Bustinza, & Vendrell-Herrero, 2012). Recently, scholars have begun to challenge the assumptions about manufacturers' service-oriented growth strategies, and pointed out the importance of balancing business expansion and standardization activities (Kowalkowski, Windahl, Kindström, & Gebauer, 2015) as well as identifying and addressing tensions across value chain (Burton, Story, Zolkiewski, Raddats, Baines, & Medway, 2016) through servitization. A recent conceptualization suggests that information can be a third dimension, alongside service and product, utilizing the value of big data in servitization (Opresnik & Taisch, 2015).

In a similar vein, the framework of complex engineering service systems showed how service involves transformation of materials, information, and people (Ng, et al, 2011).

To gain a nuanced understanding of servitization, scholars have suggested the need to distinguish different categories of services (Baines & Lightfoot, 2013). A myriad of categorization approaches exist in the literature, drawing on different conceptual and theoretical frameworks. For example, using the concept of a life-cycle service offering, one study suggests 11 main categories of services based on an empirical categorization of 1,638 services (Rabetino, Kohtamäki, Lehtonen, & Kostama, 2015). Another study, adopting a network perspective, suggests four different types of service networks: (a) vertical after-sales, (b) horizontal outsourcing, (c) vertical life-cycle, and (d) horizontal integration (Gebauer, Paiola, & Saccani, 2013). Furthermore, based on a product-service system (PSS) view, five options for servitization have been identified: integration-, product-, service-, user-, and result-oriented (Neely, 2008). A framework categorizes the services of manufacturing firms by level as basic, intermediate, and advanced (Baines & Lightfoot, 2013). A recent study of UK manufacturing firms found that firms can implement various servitization strategies, for example, they can extend their provision of intermediate services (e.g., condition monitoring, repair, etc.) or offer advanced services (e.g., performance contracting, managed services, solutions, etc.) (Baines & Shi, 2015).

Nevertheless, little attention has been paid in the servitization literature to inter-organizational relationships, such as M&As, strategic alliances, and joint ventures. A recent study proposed a taxonomy for servitization research that distinguishes between mainstream and alternative approaches to servitization, such as KIBS (Knowledge-Intensive Business Service) (Vendrell - Herrero & Wilson, 2016). A collaborative partnership can be viewed as an alternative approach to servitization. M&As can generate new opportunities by pooling

resources and capabilities, which in turn can benefit the involved parties (Weber et al., 2014). For example, acquisitions offer a platform for the combined entity to exploit resource bases derived from the exploration of entrepreneurial opportunities (Keyhani, Lévesque, & Madhok, 2015), knowledge transfer (Ahammad, Tarba, Liu, & Glaister, 2016) and knowledge sharing (Aklamanu, Degbey, & Tarba, 2015). M&As involve two firms that may possess different levels of servitization. A firm can enhance its service offerings by acquiring a target with a service business unit or KIBS, which, as professional service firms, can deliver high intellectual-value-added services to other manufacturing firms (Muller & Zenker, 2001). KIBS can be viewed as a bridge between manufacturing firms, which delivers advanced services that complement their products (Muller & Doloreux, 2009). Collaborative partnership can generate additional insights by bringing a relational approach to servitization. Servitization research on supply chain management has emphasized the interdependence between suppliers and buyers (Bustinza, Parry, & Vendrell-Herrero, 2013; Vendrell-Herrero, Bustinza, Parry, & Georgantzis, 2016). In particular, an M&A can enable the acquiring firm to access local customers and distribution channels. We argue that examination of collaborative partnerships can contribute to the literature on servitization.

## *2.2 Integration mode in M&As and absorptive capacity*

Integration management plays a critical role in achieving synergy after an M&A (Haspeslagh & Jemison, 1991; Sarala, Junni, Cooper, & Tarba, 2016). Organizational integration, such as interaction and coordination between the two firms involved in the acquisition, is considered to be one of the most influential factors in achieving synergies (Larsson & Finkelstein, 1999; Larsson & Lubatkin, 2001). The prevailing integration modes, suggested by Haspeslagh and Jemison (1991), include: (a) *absorption*, which represents a high level of integration and involves dissolving the boundary between the acquiring and the acquired firm, and minimizing the autonomy of the acquired management; (b) *symbiosis*, which denotes a

moderate level of integration, where the acquiring and the acquired firms co-exist and gradually become interdependent; and (c) *preservation*, which is the lowest level of integration, and where the acquisition is managed at arm's length, providing the highest level of autonomy to the acquired management. In the context of Chinese firms' overseas acquisitions a novel integration mode was identified as "light-touch integration" because of cultural and contextual factors (Liu & Woywode, 2013). In the course of light-touch integration, despite the high synergy potential between acquirer and target, the Chinese acquirer tends to integrate the target loosely by granting extensive autonomy to the top management team of the target while sitting on the advisory board to provide strategic advice. A key rationale for light-touch integration is a motivation to learn and to expand the acquirer's absorptive capacity.

M&A scholars have investigated various aspects of learning and its implications for M&As (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Gomes, Angwin, Weber, and Tarba, 2013; Very & Schweiger, 2001). For example, one study investigated the effect of cultural learning interventions on the post-acquisition integration process (Schweiger & Goulet, 2005). Another study explored the merger of two previously acquired companies into the same division of a French corporation, and found that learning resulted from a systematic comparison of organizational differences between combining entities (Leroy & Ramanantsoa, 1997).

Absorptive capacity is a key construct in studies investigating organizational learning and innovation (Cohen & Levinthal, 1990; Todorova & Durisin, 2007), and it has been used to investigate the learning aspects of firms based on the example of Chinese firms going global through acquisitions (Liu & Woywode, 2013). The relationship between absorptive capacity and M&As suggests that the motive to learn is not sufficient to result in knowledge transfer in M&As, absorptive capacity plays an important role in bringing about such transfer (Junni &



Sarala, 2013). Absorptive capacity can be potential and realized (Jansen, Van Den Bosch, & Volberda, 2005; Liu & Woywode, 2011). Liu and Woywode (2013) stressed the role of absorptive capacity in the integration mode adopted by Chinese firms in their overseas acquisitions.

The absorptive capacity of the subsidiary has been identified as a key determinant in knowledge transfer in MNEs (Song, 2014). The interaction between MNE knowledge transfer, subsidiary absorptive capacity, and human resources management (HRM) tends to be complex and involve various social mechanisms (Minbaeva, Pedersen, Björkman, & Fey, 2013). The use of social and operational integration mechanisms is conducive to post-acquisition transfer of capabilities (Bjorkman, Stahl, & Vaara, 2007). Similarly, an absorptive capacity perspective (Volberda, Foss, & Lyles, 2010) suggests that future research should consider the contextual factors, because inter-organizational antecedents remains unclear. We argue that M&As pursued by emerging multinational enterprises can offer an instructive empirical setting for investigating the influences of absorptive capacity in collaborative partnerships.

### **3. Research Method**

#### *3.1 Research context*

We chose overseas acquisitions of Chinese firms in Germany as the empirical context of our study for several reasons. First, M&A was identified as a primary market entry mode for firms in emerging markets venturing abroad (Liu & Deng, 2014; Sun, Peng, Ren, & Yan, 2012). M&A is a complex and sophisticated international business strategy that involves multi-faceted challenges for managers in both emerging and developed markets (Sarala et al., 2016). When firms from emerging markets venture into advanced economies, context plays an important role that can affect the business leaders' decision making and managerial

practices (Liu & Vrontis, 2016). Cultural differences play an important role in the foreign ventures of firms in emerging markets. For example, in emerging markets favours serve as a medium of exchange of social capital and are prevalent in business (Teagarden & Schotter, 2013). But such business practices may not be acceptable in advanced economies, which might raise obstacles for firms in emerging markets or produce misunderstanding and confusion among Western managers. Therefore, our choice of emerging market firms venturing into advanced economies may provide a contextualized understanding of servitization strategy used by manufacturing firms (Baines & Lightfoot, 2013; Roy et al., 2009).

Second, we focus on Chinese acquisitions in Germany, because similarly to China, Germany depends heavily on manufacturing exports. But whereas Germany exports mainly industrial goods, such as high-end machinery, China serves as a global manufacturing hub that exports various high- as well as low-tech products to the rest of the world (Liu & Woywode, 2011, 2013). China needs to upgrade its technological capacities and move up the value chain in order to capture a greater share of the value created. Thus, China and Germany have complementary industry profiles that may facilitate collaboration and offer ample learning opportunities for Chinese firms. Recent trends in development show that Chinese acquisitions in Germany increased dramatically, with Germany becoming the top destination for Chinese investment in Europe. In the first half of 2016, Chinese investors acquired 37 German companies, with a total transaction value of USD 10.8B, more than all previous years combined. Therefore, our research context has important contemporary managerial and policy implications.

### *3.2 Case studies and the storytelling research method*

The nature of our research questions determines our choice of qualitative research method, which is of great value for theory extension (Graebner, Martin, & Roundy, 2012; Kowalkowski et al., 2015). To capture the nuances and complexity of an emerging field, qualitative research and methodological pluralism are needed (Cornelissen, 2016). Growing interest among scholars and practitioners in the applicability of qualitative research methods has been reflected in several publications on international business strategy research in general (Birkinshaw, Brannen, & Tung, 2011; Eisenhardt, Graebner, & Sonenshein, 2016) and on M&A strategy in particular (Monin, Noorderhaven, Vaara, & Kroon, 2013; Riad & Vaara, 2011). We use comparative case analysis to capture the complexity and richness of the phenomenon and to search for patterns across cases of Chinese acquisitions in Germany. We use the storytelling research method, which is suitable for studying complex and dynamic organizational topics (Liu, Xing, & Starik, 2012; Vaara, Sonenshein, & Boje, 2016). In particular, we embrace the beauty of storytelling to capture meaning for social sciences (Gabriel, 2000; Polkinghorne, 2005), which is less represented in international business studies (Haley & Boje, 2014).

### *3.3 Sample and data*

We used several sources and followed a two-step process to identify acquisitions by Chinese firms in Germany. First, we checked the SDC Platinum of Thomson Financials, which is widely used by M&A scholars (Lin, Peng, Yang, & Sun, 2009; Peng, 2012). Second, we searched news, press releases, websites, and company announcements to gather the relevant information.

The case studies are part of a large research project within the framework of which we collected data concerning companies operating in different industrial sectors, including electronics, automotive, machine tool, textiles, food processing, and machine building. We

conducted semi-structured in-depth interviews with senior managers and managing directors of Chinese acquisitions in Germany. The informants included both Chinese and German managers. We collected information regarding the viewpoints of both the acquiring and the acquired companies. Interviews were carried out in Chinese and German, by a bilingual research team. Mindful of the language issue in M&As (Kroon, Cornelissen, & Vaara, 2015), the bilingual research team checked the accuracy of the interviews. We ensured the quality of our data by cross-checking publically available information, including press releases, newspaper reports, and industry reports with policy guidelines, to enhance the trustworthiness of the study (Gibbert, Ruigrok, & Wicki, 2008; Pratt, 2009; Siggelkow, 2007).

For the present study, we choose four cases in the machine tools manufacturing industry, a branch in which a significant share of the acquisitions took place (Liu & Deng, 2014; Peng, 2012). The four acquisition cases we chose for the present paper involve servitization and service divisions. The other cases provide a useful background for the present study. In the four cases mentioned, we conducted interviews with 21 managers at both senior and middle levels. We conducted five interviews per case on average. The interviews were carried out either face-to-face or by phone and lasted for an average of 1.5 hours. All the acquired companies were privately-owned medium-size firms. Table 1 shows an overview of the sample used in the present study.

Insert Table 1 about here

Consistent with our research approach, we asked each of the interviewees to describe their working experiences in the course of the M&A process. This narrative approach gives managers the opportunity to reflect on their past experiences and make sense of their present behaviors (Czarniawska, 2004; Stokes & Gabriel, 2010). Our rich data and systematic

analysis enable us to generalize the findings to a theoretical level. The data about the M&A process consist of three sections: pre-M&A, M&A transaction, and post-acquisition integration. Table 2 shows the key dimensions of data obtained from the in-depth interviews.

Insert Table 2 about here

#### **4. Findings**

We are using an iterative process to allow the themes to emerge from the data. We begin by revealing the typology of the servitization strategy of manufacturing firms involved in M&As. Next, we elaborate on the effect of the integration mode and of the absorptive capacity on service capability. We propose a conceptual framework to connect the building blocks that illuminates their influences on servitization strategy in M&A.

##### *4.1 A typology of servitization strategy of manufacturing firms in M&A*

Our findings suggest that the acquirer and target firms may offer different levels of service when entering an M&A transaction. We adopted a process perspective of the M&As and examined the M&A activities by mapping the levels of servitization for both acquirer and target before and after the acquisition.

After identifying the different levels of servitization (Baines & Lightfoot, 2013), we distinguish between firms with more and less servitization to denote the service continuum, and further categorize servitization levels as low, middle, and high. We also describe the servitization journey as a complex process. We map the service strategies of both acquirer and target, and construct a matrix to illustrate different servitization strategies, as shown in Figure 1. From the perspective of the acquirer, we identified three servitization strategies: *adding, utilizing, and reconfiguring*.

Insert Figure 1 about here

#### 4.1.1 *Adding servitization*

The strategy of *adding* servitization involves providing an opportunity for the acquiring manufacturing firm to obtain new service offerings and possible options. This strategy is likely to be associated with non-existing or low service level on the part of the acquiring firm and a relatively advanced service offerings of the target firm. The strategy resonates with the strong learning motive of Chinese firms when they acquire firms in Germany (Liu & Woywode, 2013).

In our case analysis, *adding* represents the basic strategy of the acquirers identifying servitization options in their overseas acquisition endeavours. For example, in Case A, the Chinese firm was successful in the manufacturing machine tools sector and sold its products primarily in the Chinese market. The main product line contained standardized machines sold to industry customers. Before acquiring the German firm, the Chinese firm was characterized by a low level of servitization (Baines & Lightfoot, 2013) in the areas of customer services and maintenance. After acquiring the German firm, the Chinese firm expanded its services, which were contributed by the German firm.

The managing director of German firm explained:

Together with our Chinese colleagues, we understood that there are two markets in China, the high-end, premium market and the middle market. Therefore, we have to target the right market with the appropriate product and service offerings. If you order the product from China through our partner, we are able to supply the essential core components from Germany, with the other parts assembled in China.

In this way, we are delivering an innovative solution by combining products and services as a “cooperation machine.” The lesson is that Chinese firms need to learn how to leverage German technology and services by seizing the emerging market potential.

As Case A illustrates, the acquisition provided the Chinese firm with the opportunity to capitalize on the potential benefits that the German firm may offer. In particular, the new solution of combining Chinese components with German core elements may help the firm tap into the middle-market segment. By creating a solution-type offering, the Chinese firms are able to add advanced services, such as customer-tailored design, which was learned from the target firm in the process of M&A and added to the existing operation of the acquirer firm. As prior research has found, adding services to the product portfolio may bring benefits to an organization (Bustinza et al., 2013); our findings showed that acquiring firms have realized such benefits in Chinese cross-border M&As in Germany.

The adding servitization strategy can also be identified when firms acquire KIBS, which can deliver high intellectual-value-added services to manufacturing firms (Muller & Doloreux, 2009). Similarly, when the target has a dedicated service division, M&A enables the acquirer to access the portfolio of high intellectual-value-added services, as Case A illustrates.

#### *4.1.2 Utilizing servitization*

Our case analysis revealed another strategy that Chinese firms use when they acquire German firms: *utilization*. This strategy is more likely when the acquiring Chinese firm possesses service offerings that are not present in the German target. In particular, when the core area of specialization of the German firm is in manufacturing, the Chinese firm may offer complementary services or skills for the German firm to utilize.

The CEO of German firm in Case B elaborated on the benefits derived from the acquisition by leveraging the complementary skills offered by the Chinese firm:

The Chinese colleagues have good software developing skills. They realize that mechanical engineering is the core competence of German engineers. Now, together with the Chinese colleagues, we have one product vision that is technologically sophisticated, in combination with advanced software services. We maximize the compatible capabilities, namely a combination of those of German engineers for mechanics and of Chinese engineers for software development.

As Case B illustrates, the Chinese acquirer may utilize its existing services to enable a servitization process for the German target. Consistent with recent studies on servitization (Cusumano et al., 2015; Suarez et al., 2013), our findings support the argument that software services may constitute a key element for a manufacturing firm that wishes to participate in servitization and profit from it when firms from emerging markets acquire firms in an advanced economy. Case B illustrates the possibility for a German target utilizing the service offerings provided by the Chinese acquirer.

In addition to revealing complementary services and skills, our analysis pointed to the possibility of utilizing services in a synergistic way within the framework of a cross-border M&A. The service offerings of the acquirer and of the target may overlap to some extent, and synergy may be achieved by leveraging and optimizing the services of the combined entity.

The CEO of German firm in Case C argued:

Through acquisition of our majority ownership by the Chinese firm we hope to expand into the Chinese market through this partnership. Especially, for a German Mittelstand [middle-size enterprise], it could save a lot of money for us to use the



existing structure offered by the Chinese firm, such as sales and distribution channels as well as service centers in China. We don't need to do everything on our own but use the basic infrastructure in place there.

This case shows that existing service offerings by the Chinese firm can contribute to the global expansion path of the German target. In Case C, the target can use the acquirer's sales channel in the Chinese market, so that the Chinese distribution and service team can sell the German products. This approach can be beneficial and cost-effective for the German target. Our finding lends support to the argument that economic and organizational factors are among the main constraints faced by SMEs entering emerging markets (Stokes et al., 2015). Our findings suggest that utilizing service offerings can help the German target firm enter the Chinese market.

#### *4.1.3 Reconfiguring servitization*

In our case analysis, a *reconfiguring* servitization strategy suggests a more sophisticated approach in dealing with servitization when both target and acquirer firms possess service offerings before the M&A. This strategy requires a high degree of coordination and collaboration between acquirer and target in the M&A process, to pursue value-creating servitization activities by the combined entity.

The managing director of the German firm in Case D, who served as industrial advisor for the Chinese firm during the acquisition process, explained the *raison d'être* behind this:

There were two main reasons for the Chinese firm to acquire the German target. First, the Chinese firm has had a joint venture with the German target since 2006 in the area of sales development. Under such a constellation, we have together received some industrial orders, although we did not assemble them in China. The previous

experience laid the foundations for future collaboration. Second, the automotive market is shifting to Asia, in particular China and India. From a strategic point of view, it makes sense to partner with an Asian player to profit from the global market potential.

Previous collaboration in sales development paved the way for the Chinese acquirer to take over the German target in 2009. After the acquisition deal, to leverage the product and service potential, the new combined entity needed to streamline and reconfigure the product and service offerings. The managing director went on to elaborate:

In the past, we were a very strong German firm focusing on European automotive markets. Today we are a Chinese company addressing a global market with historical German roots. We grew within Europe, but now are prepared to build full-service supplier capability beyond Europe. We are active in Asia Pacific, North America, South America, and Europe. This means that in each region we must be ready for development, that is, to push sales, manage projects, develop and assemble products. The lead activity in Europe is envisaged as a Tech Center, through which 60 years worth of experience and technological know-how will be transferred to other regions, [to serve new] customer groups, in particular the Chinese automotive market.

Case D sheds light on the fact that in the course of the M&A process a new strategic vision emerged for the German target. The mission of building a global company with full-service supplier capability requires commitment and effort in a process of reconfiguring both the Chinese acquirer and German target. This new strategic positioning may be associated also with the renewal of the business model (Teece, 2010), in which servitization can become the engine for generating revenue streams and profitability (Kastalli & Van Looy, 2013; Visnjic, Wiengarten, & Neely, 2016). Our analysis suggests that in the case of Chinese acquisitions in

Germany, reconfiguring servitization may have the potential to benefit both the acquiring and the target firm from a strategic management perspective.

#### *4.2 Factors influencing servitization strategies*

Our analysis reveals that integration mode and absorptive capacity can influence the configuration of servitization strategies in M&As. To obtain a more nuanced and contextualized understanding, our study builds on the theoretical bases of integration mode and absorptive capacity, and explores their influences on servitization strategies in cross-border M&As. We argue that these influences may be mediated by service capability, as shown in the conceptual framework in Figure 2.

Insert Figure 2 about here

##### *4.2.1 The influence of integration mode on development of service capability*

Based on recent research on the integration mode of overseas acquisitions by firms in emerging markets in advanced economies, light-touch integration used by Chinese firms was proposed as a relatively passive and loose integration mode (Liu & Woywode, 2013). Our analysis suggests that integration mode can significantly affect the configuration of servitization strategy in M&As. Although integration in Chinese cross-border M&As' falls into the broadly defined light-touch mode, our case analyses reveal certain integration mode dynamics over time. For example, in Case D the post-integration activities and processes developed gradually, as related by the CEO of the German firm:

We have started the integration plan right after the acquisition. We have a Steering Committee, consisting of shareholders' representatives, senior management, external industrial specialists, and myself. We meet regularly to report progress to this

committee and discuss the next steps of the integration process. We learn from each other and exchange experiences and expectations, including all strategic and operational issues.

Integration activities offer a platform for employees of both the acquirer and the target firm to gain a better understanding of the current situation and to communicate results in a timely manner, facilitating the design and implementation of the servitization strategy. Likewise, integration activities can facilitate knowledge transfer between target and acquirer in cross-border M&As (Ahammad et al., 2016).

Unlike the reconfiguring servitization strategy, adding and utilizing servitization may not require a high degree of coordination. Intensive and timely communication patterns between target and acquirer can help smooth the new production development process, and solve issues and problems that may arise in combining German machinery with Chinese software, as shown in Case B. Integration mode can also affect service capability development, which takes time and requires mutual understanding and trust on the part of both acquirer and target. Light-touch integration grants high autonomy to the target management team, signalling trust and long-term orientation. This makes possible the mapping of the different levels of services of both acquirer and target, developing service capability.

#### *4.2.2 Absorptive capacity as micro-foundation for service capability*

Another important factor we identified is absorptive capacity. Prior research has demonstrated a strong motive of learning in Chinese overseas acquisitions and the potential obstacles raised by the absorptive capacity of Chinese organizations (Liu & Woywode, 2013).

Our investigation of the configuration of servitization strategy revealed the important effect of absorptive capacity as the micro-foundation of service capability.

In Case C, the Chinese acquirer's service offerings, such as sales and distribution channels, and service centers in China, have the potential of being used by the German target seeking to enter the Chinese market. Because of the absorptive capacity of acquirer, using the existing Chinese service offerings for the German target appears to be difficult and challenging.

The CEO of the German target shared his unsuccessful experience:

Our initial attempt to use the sales and distribution channels of our Chinese partner proved to be very difficult. I think the main reason is that the Chinese don't have the capability to understand the German product! They may communicate and represent our products wrongly to the customers, and may not deliver the high-level services expected by our customers. After several tries, we decided to build our own sales and distribution channels and service teams in China, because we are not able to use the ones offered by the Chinese firm.

Case C shows that despite the enormous potential for profit of the German target made possible by the utilizing servitization strategy, absorptive capacity can significantly influence the implementation of servitization. Managing the potential absorptive capacity and converting it into realized absorptive capacity requires the understanding of micro-level antecedents and organizational mechanisms (Jansen et al., 2005). Consistent with the micro-foundation movement in management studies (Felin, Foss, & Ployhart, 2015), we suggest that absorptive capacity is a micro-foundation of service capability. Lack of a proper level of absorptive capacity can hinder the identification and implementation of different levels of services on the part of both acquirer and target, and thus inhibit the development of service capability. This in turn can lead to a less successful implementation of servitization strategies,

despite the fact that the potential value of servitization strategies is high. Therefore, an adequate level of absorptive capacity is required for both target and acquirer to generate synergistic effects from Chinese overseas acquisitions aimed at implementing servitization. Furthermore, the ownership structure of the acquirer firm might lead to variations in absorptive capacity and service capability, especially in view of the fact that the organizational culture of state-owned enterprises (SOEs) differs greatly from that of their counterparts, which are privately-owned entrepreneurial enterprises (POEs) (Xing & Liu, 2015a). Our analysis reflects the influence of ownership and its consequences on the configuration of the servitization strategy and implementation of servitization. In the category of utilizing servitization, in Case B acquirer is a private entrepreneurial firm, and in Case C it is an SOE. The organizational culture of flexibility and agility of private entrepreneurial acquirers helps both acquirer and target implement servitization and at the same time cultivate service capability. *Therefore, our results suggest that the characteristics of the organization are pivotal factors in explaining the adoption of the analyzed servitization strategies. It is necessary to pay attention to the organizational characteristics of both acquirer and target.* Our findings lend support to the important role of agility in knowledge transfer in M&A (Junni, Sarala, Tarba, & Weber, 2015). Transfer of knowledge about different levels of services between acquirer and target is conducive to building service capability, which in turn can affect the configuration and implementation of servitization strategies in M&A.

## **5. Discussion**

### *5.1 Theoretical contribution*

Following the call to develop alternative directions for servitization research in order to challenge the existing paradigmatic approaches (Luoto, Brax, & Kohtamäki, 2016), the present study significantly expands the understanding of servitization among manufacturing

firms by investigating the inter-organizational collaborative partnerships. Manufacturing firms in emerging markets can consider acquiring manufacturers in Western economies to learn from their counterparts, to gain access to more clients, and most important, to obtain the skills and competences needed to transform the manufacturing firms from emerging markets through a servitization process. Our analysis of cross-border M&As carried out in advanced economies by firms from emerging markets contributes to a nuanced understanding of servitization through acquisitions by manufacturing firms as an alternative approach to servitization. Our findings have revealed three possible servitization strategies that may be used by manufacturing firms in emerging markets seeking to enter advanced economies through M&As: *adding, utilizing, and reconfiguring*. The servitization strategies are closely linked to the level of services of the acquirer and of the target before and after the M&A process. Our findings describe the possible variations in servitization strategy and the factors influencing the implementation of servitization by manufacturing firms in emerging markets venturing into advanced economies by way of cross-border M&As.

Although the servitization literature indicates that servitization can help manufacturing firms enhance their competitive advantage and contribute to industry evolution (Cusumano et al., 2015), there is scant research examining the role of servitization in inter-organizational settings from the perspective of alternative approaches (Vendrell - Herrero & Wilson, 2016). To the best of our knowledge, our study represents the initial attempt to explore and investigate servitization strategies in cross-border M&As with respect to Chinese overseas acquisitions. Our findings shed light on possible servitization strategies by suggesting a typology based on the different levels of services (Baines & Lightfoot, 2013) offered by the firms involved in the M&A transaction. The present research is among the first to identify the role of servitization and of the factors influencing it in cross-border M&As.

Recent studies have emphasized the importance of integration mode and of learning aspects in Chinese cross-border M&As (Liu & Deng, 2014; Liu & Woywode, 2013). Our study extends this line of reasoning by offering empirical evidence and a contextualized understanding of the influences of integration mode and absorptive capacity by examining servitization strategies in cross-border M&As. We examined integration and absorptive capacity in servitization strategies and their implementation, extending prior work on servitization from a micro-foundational perspective (Bustinza et al., 2015), and suggested that integration and absorptive capacity are important factors affecting service capability. Researchers in the future can expand this conceptualization of servitization in M&As. Our study highlights the importance of integration mode, absorptive capacity, and service capability in enabling the configuration of servitization strategies and in implementing servitization.

Our research also makes a contribution to the broader literature on firms in emerging markets venturing into advanced economies by examining servitization strategies of Chinese cross-border M&As in Germany. We extend the argument that acquisitions conducted by EMNEs may deviate from the common practices in cross-border M&As, for example, in the fact that EMNEs tend to partner with the target firms (Kale, Singh, & Raman, 2009; Kumar, 2009). Our study may inspire further inquiry into the unique strategies of emerging market firms venturing into advanced economies by acquisitions. An appropriate integration mode and adequate absorptive capacity can foster the development of service capabilities, which in turn can lead to different servitization strategies in M&As.

### *5.2 Managerial implications*

As highlighted by Story, Raddats, Burton, Zolkiewski, & Baines (2016) servitization might have implications for various stakeholders and thus they suggest adopt a multi-actor



perspective while pursuing it. The present study has several implications for global managers. Western companies should pay close attention to the overseas acquisitions of firms from emerging markets and to the consequences for servitization strategies and their implementation. The unprecedented pace of economic development in emerging economies and the rapidly increasing number of emerging market firms' overseas acquisitions challenge policymakers and business leaders in a globalized business environment. Servitization has been viewed as a new strategy for Western firms to enhance competitive advantages under conditions of intense global competition (Baines & Lightfoot, 2013). Our findings suggest that in the pursuit of cross-border M&As, firms from emerging markets may overcome the barriers raised by Western companies and develop servitization strategies through acquisitions in advanced economies. Servitization has the potential to improve the competitive positioning of a firm, which was the rationale provided by interviewees in our case studies. A nuanced understanding of servitization in M&As may help actors design and implement different servitization strategies. Various levels of services and contextual situations may generate multiple opportunities for a wide spectrum of stakeholders involved in M&As, beyond the acquirer and the target. But as our empirical findings suggest, overseas target firms need to understand the M&A practices and local situation as they explore the opportunities offered by Chinese market. To pursue servitization strategies in the M&A process, it is important to achieve mutual understanding, trust, and the ability to learn from each other (Xing, Liu, Tarba, & Cooper, 2016).

It is important to recognize business-specific factors that may affect the servitization strategies chosen by organizations. The typology of servitization strategies and our findings suggest that different levels of servitization of both acquirer and target can determine which servitization strategy is most appropriate for the M&A case at hand. Adopting an *adding*, *utilizing*, or *reconfiguring* strategy is contingent upon business-specific factors of both the

acquirer and target. This makes it necessary for managers in the M&A process to understand both the situations of both acquirer and target. A prior work relationship, before entering into an M&A, may help reveal the hidden information. The development of service capability can also strongly affect the effectiveness of the chosen servitization strategy in M&As. We suggest that managers be equipped with the appropriate skills, capabilities, and mindset for understanding, crafting, and implementing different servitization strategy in M&As.

In inter-organizational collaborative partnerships, the emphasis shifts from West-leads-East to West-meets-East (Liu et al., 2012). Traditional philosophy and cultural resources are highly influential in contemporary managers' practice in China. For example, business leaders in China tend to rely on ambiguity to motivate employees (Xing & Liu, 2015b). Our research indicates that Chinese firms apply their unique methods, such as the light-touch integration, which are deeply influenced by culture. To make M&As succeed and deliver their synergy potential, collective activities, mutual engagement, and active participation are needed on the part of both acquirer and target. This study sheds light on designing and implementing servitization strategies and recommends cultivating an environment that is conducive to capturing the potential value of different servitization strategies.

### *5.3 Limitations and future research*

The present paper is an early attempt to understand the servitization strategies in M&As. Although our conceptualization rests on four case studies of Chinese M&As in Germany, we view our findings as tentative and suggest that future research efforts should validate it using a quantitative approach to capture the essence of servitization strategies in M&As. Future research should also compare different advanced economies and their country characteristics when examining acquisitions by Chinese firms, to achieve a comparative perspective on servitization strategies in M&As. For example, Germany is a recognized power in

manufacturing, and the firms acquired by Chinese firms in Germany are primarily in manufacturing. By contrast, the UK is a more service-oriented economy, where recent Chinese acquisitions include financial service firms, such as Standard Bank Investment Banking, and retailers, such as the House of Fraser, and Pizza Express. Comparing different industry sectors may provide important insights into the dynamics of servitization strategies in M&As.

Amidst the drive by emerging multinationals to venture into advanced economies, expansion-type emerging multinationals tend to lack international experience and familiarity with institutions abroad (Zahra, Abdelgawad, & Tsang, 2011). Although emerging economies share many commonalities, such as the dynamics in transforming and building institutions (Hoskisson, Wright, Filatotchev, & Peng, 2013), emerging markets can vary on most significant dimensions: institutional, economic, cultural, social, and technological (Teagarden, 2013). Therefore, we suggest that future research examine the overseas acquisitions of firms from other emerging economies, to obtain a comparative understanding of servitization strategies and their implementation.

Another profitable research stream concerns the recent discussion of micro-foundations in management and organization studies (Felin et al., 2015). Our research shows that different servitization strategies need different degrees of collaboration and coordination between acquirer and target with respect to integration mode and absorptive capacity. Absorptive capacity can be viewed as one micro-foundation for service capability. Future research can explore potential psychological micro-foundations that may facilitate or hinder the implementation of servitization strategies in M&As. The human factors (Cooper, Liu, Sarala, & Xing, 2015; Weber and Tarba, 2010; Vasilaki, Tarba, Ahammad, and Glaister, 2015) may offer important and revealing insights on how servitization strategies can be implemented,

and on the reaction of employees in M&As in particular and in collaborative partnerships in general.

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**Table 1.** Overview of the companies involved in the case studies

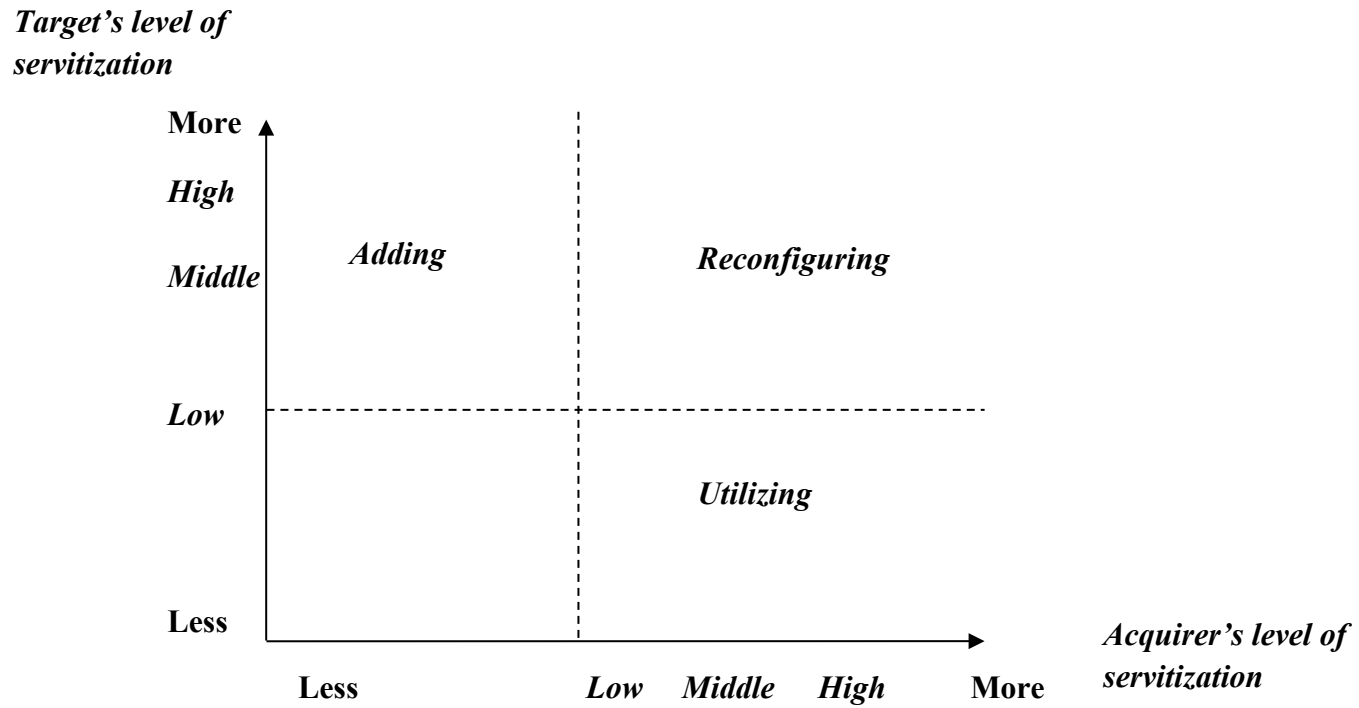
<b>Case study</b>	<b><u>M&amp;A year</u></b>	<b><u>Industry</u></b>	<b><u>Brief case summary</u></b>	<b><u>Pre-M&amp;A service level<sup>1)</sup></u></b>	<b><u>Post-M&amp;A service level<sup>1)</sup></u></b>	<b><u>Servitization strategy</u></b>
Case A	2004	Machinery	CN1 acquired bankrupt DE1, manufacturer of heavy machine tools.	Low	High	Adding
Case B	2005	Machinery	CN2 acquired DE2, manufacturer of weaving machinery.	High	High	Utilizing
Case C	2004	Machinery	CN3 acquired DE3, manufacturer of heavy machine tools.	Middle	Middle	Utilizing
Case D	2009	Automotive	CN4 acquired bankrupt DE4, manufacturer of automotive sealants.	High	High	Reconfiguring

Notes:

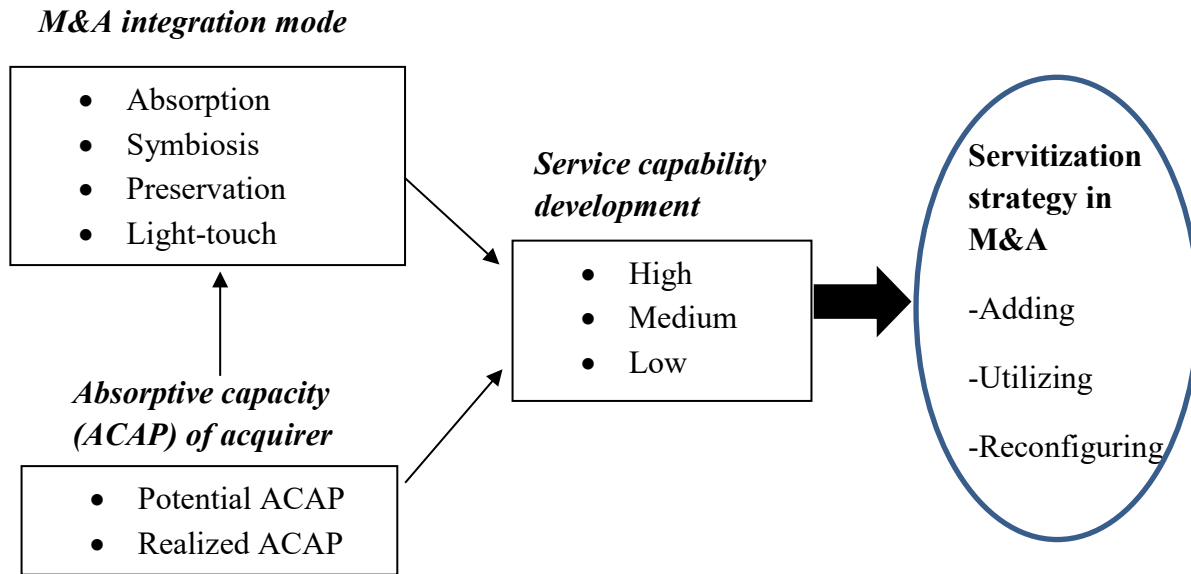
1) From the acquirer's perspective

**Table 2:** Key dimensions in semi-structured interview guideline

<b>Pre-M&amp;A</b>	<b>M&amp;A transaction</b>	<b>Post-integration acquisition</b>
<ul style="list-style-type: none"><li>• Motivation</li><li>• Where does the contact come from?</li><li>• Where to obtain the information?</li></ul>	<ul style="list-style-type: none"><li>• Decision-making process</li><li>• Stakeholder</li><li>• External support</li><li>• Internal competence</li></ul>	<ul style="list-style-type: none"><li>• Integration plan</li><li>• Integration function</li><li>• Unanticipated challenge</li><li>• Collaboration/ joint work</li><li>• Benefits</li></ul>



**Fig 1.** Typology of servitization strategies in M&As from the acquirer's perspective



**Fig 2.** Conceptual framework of servitization strategies in M&As