- **Efficiency-enhancing** investors aim to reduce their overall costs of production. They often single out the locations that enable the most efficient operation of the overall value chain, considering the availability and costs of inputs – especially the labour force, economies of scale and good transportation linkages. Their main question is, how can we lower the costs of our operations to deliver products and services to our customers? For example, Indian IT company *Tata Consultancy Services* set up operations in Hungary because Hungary offered the best combination of labour costs and proximity to European clients.

efficiency-enhancing FDI Investors' quest to single out the most efficient locations for each value chain activity.

- **Capability-enhancing** investors, also known as strategic asset seekers, aim to access new ideas and technologies that help them to upgrade their own technological and managerial capabilities. Such entries aim to access the knowledge base of the host country and thus to generate knowledge that may help the entire MNE to advance its organizational learning and growth.[2] Capability builders such as *Tata Motors* and *Geely* (In Focus 12.1) thus ask, where are the latest technologies and ideas that we can connect to our existing technologies and innovation activities? Note that the primary concern of this type of investor is not to build a new subsidiary but to change the parent organization.

capability-enhancing FDI Investors' quest for new ideas and technologies that to upgrade their own technological and managerial capabilities.

IN FOCUS 12.1

Tata *and* Geely *acquire capabilities*

When Indian and Chinese MNEs invest overseas their first aim is often to build their own capabilities. Even when they have been highly successful at home, they still face a gap in capabilities, such as technological and managerial competencies, marketing to premium customers, engaging with financial advisors and private equity, managing R&D processes and leading creative people.

Consider two examples in the car industry. India's *Tata* acquired *Corus Steel*, *Tetley Tea* and *Jaguar Land Rover (JLR)* in the UK. Contrary to typical Western acquisitions, these foreign entries were not (primarily) aiming to sell Indian products in Europe, or reduce costs of existing operations, or access natural resources. In fact, the acquired firms have only been loosely integrated with other member firms of the *Tata Group*. So why did *Tata* make these big and risky investments? In addition to financial motives (risk diversification), *Tata*'s ambition has been to compete in global markets, and therefore it needed to build a range of managerial competencies. After the acquisition, the acquired firm was given high operational autonomy and additional financial resources for investment. On this basis, *Tata*-owned *JLR* has successfully rebuilt its UK manufacturing operations and its emerging economy market share. At the same time, parent organization *Tata Motors* continued to struggle in its Indian home market.

Similarly, *Geely*, a private Chinese car manufacturer, acquired Swedish premium car maker *Volvo* and the manufacturer of London taxis, *Manganese Bronze*. Like *Tata*, *Geely* was not geared towards European markets (their growth was close to zero at the time). Rather, *Geely* aimed to use the acquired brands and technologies to strengthen its position in the largest and fastest growth market for passenger cars, China. After the acquisition, *Volvo* built a new car assembly plant in China and invested in building its premium brand in China. In 2014 alone, *Volvo* added 30 new dealerships in China to increase its network to 157, and sales surged by 33%. Thus China overtook the USA as *Volvo*'s most important market.

In both cases, the new owners thus helped build bridges to potential customers in emerging economies by investing in new plants, distribution channels and brand marketing. Yet their main objective was even