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# What drives firms' intent to seek strategic assets by foreign direct investment? A study of emerging economy firms

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ABSTRACT

What drives firms, particularly those from emerging economies, to engage in competitive catch-up with world leaders? We study the first step leading to catch-up, namely the managerial intent to acquire strategic assets that help closing the gap. Theoretically grounded in the awareness–motivation–capability (AMC) framework of competitive dynamics, we identify key factors contributing to firms' strategic intent to catch-up by acquiring strategic assets abroad. Using a sample of 154 Chinese firms, we find that firms' strategic assets seeking intent of foreign direct investment is influenced by their exposure to foreign competition, their governance structure, and relevant financial and managerial capabilities.


## 1. Introduction

"Strategic intent" refers to a mentality of focusing on future opportunities and long-term objectives for global leadership beyond short-term strategic planning (Hamel & Prahalad, 1989). It is, according to Hamel and Prahalad (1989, 2005), critical for laggard firms to transform their competitive advantages and catch up with, or even overtake, incumbent global leaders. An important means to achieve such catch-up is to acquire strategic assets overseas. Hence, strategic asset seeking (SAS) has become an important strategic intent motivating foreign direct investment (FDI) (Dunning & Lundan, 2008; Kogut & Chang, 1991; Makino, Lau, & Yeh, 2002). While principally applicable to all firms, SAS intent for FDI has received heightened attention from international business scholars due to the fast-paced internationalization of emerging economy (EE) multinational enterprises (MNEs) (Luo & Tung, 2007; Rui & Yip, 2008; Xu & Meyer, 2013). Recent studies suggest that, due to their lack of firm specific advantages and weak locally available assets, EE MNEs as "late-comers" often engage in SAS FDI to acquire strategic assets overseas (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Li, Li, & Shapiro, 2012; Luo & Tung, 2007).

Research on strategic intent primarily focused on its consequences. For example, researchers examined the impact of SAS intent on EE MNEs, such as their use of cross-border acquisitions as a mode of entry (Deng, 2009; Elango & Pattnaik, 2011; Madhok & Keyhani, 2012) and their subsidiary ownership structures (Cui & Jiang, 2009). In contrast, we lack understanding of the antecedents of strategic intent, and SAS intent of FDI in particular, which is a significant research gap because firms' strategic intent is endogenous to organizational characteristics and competitive environment they operate in (Rui & Yip, 2008). External and internal variations thus lead to differences in strategic intent, and indirectly then to different realized FDI strategies. Examining the antecedents of firms' SAS intent is therefore an important step toward understanding FDI strategies of EE firms. Our central research question thus asks: *What factors contribute to the level of SAS intent in internationalizing EE firms?*

We approach the question through the awareness–motivation–capability (AMC) framework of competitive dynamics. When existing capabilities and locally available assets become inadequate for future competition, firms may aim to catch up by strategically acquiring complementary assets overseas through SAS FDI (Björkman, Stahl, & Vaara, 2007; Dunning & Lundan, 2008; Meyer, Wright, & Pruthi, 2009). The AMC framework provides a theoretical lens to study competitive actions, such as investments in catch-up. The framework links strategic actions to managers' *awareness* of their internal needs and external opportunities for strategic assets, their *motivation* to take high risks in view of large potential long-term benefits, and their *capability* to identify and

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acquire appropriate strategic assets overseas. We argue that these decision-maker level constructs are driven by the firms' markets, governance, and capability. With this extension, the AMC framework allows us to identify important antecedents leading to firms' intent to seek strategic assets through FDI.

The empirical context of our study is outward FDI of Chinese firms. The rapid growth of Chinese MNEs over the past decade induced scholars to re-evaluate and extend their theories (Bruton & Lau, 2008; Buckley et al., 2007; Cui & Jiang, 2012). In particular, many Chinese MNEs pursue FDI with the intent to acquire strategic assets, rather than exploit existing resources and capabilities (Liu & Woywode, 2013; Luo & Tung, 2007; Rui & Yip, 2008). In other words, they use FDI as a channel to overcome their disadvantages vis-à-vis existing and potential global rivals (Child & Rodrigues, 2005; Deng, 2009; Mathews, 2002), and hence to accelerate their internationalization process (Meyer & Thaijongrak, 2014). However, not all Chinese MNEs pursue strategic assets; they also pursue traditional motives of markets and efficiency. Thus, the significance of this SAS intent, and the variation among firms in their intents, makes Chinese MNEs an ideal empirical setting to test our hypotheses.

This study offers several contributions. First, we contribute to the understanding of strategic intent in international business. *Intentionality* is a key factor for understanding firm internationalization strategy (Hutzschenreuter, Pedersen, & Volberda, 2007). Current research, however, does not well explain what drives firms to develop strategic intent in the first place. Since strategic intent is not exogenous, random, or directly observable (Rui & Yip, 2008), understanding its determinants enhances the utility of this construct in business research.

Second, we contribute to explaining puzzles identified in recent empirical studies of the EE MNEs. Specifically, despite their early stage of internationalization and limited international experience (Meyer & Thaijongrak, 2014), many EE firms make large international commitments leading them to adopt aggressive entry modes to accelerate their internationalization (Deng, 2009; Klossek, Linke, & Nippa, 2012; Luo & Tung, 2007; Ramamurti & Singh, 2009; Rui & Yip, 2008). Our study of the antecedents of EE firms' strategic intent sheds light on which firms choose such an aggressive path of SAS driven internationalization.

Third, we extend the application of the AMC framework in international business. Prior competitive dynamics research has predominantly focused on existing rivals in currently contested markets (Chen, 1996; Chen & Miller, 1994; Gimeno, 1999; Yu & Cannella, 2007). We focus on a competitive catch-up setting and discuss how the AMC dimensions can be interpreted under such conditions. Thereby, we demonstrate the usefulness and limitations of this framework in explaining long-term-oriented competitive actions by potential challenger firms.

## 2. Theoretical framework

SAS FDI intent is distinct among FDI intents in that it provides the foundation for competitive actions aiming for a long-term competitive catch-up strategy. We analyze these intents through the lens of the AMC framework of the competitive dynamics literature, which we extend to a competitive catch-up context. We first introduce the concept of SAS FDI, and then present the AMC framework as a theoretical base to study SAS intent of FDI.

### 2.1. Strategic asset seeking FDI and competitive catch-up

The FDI literature distinguishes four main motives of FDI – natural resource seeking, efficiency seeking, market seeking, and strategic asset seeking (Buckley et al., 2007; Dunning, 1998; Makino et al., 2002). This distinction of intents is important because different FDI intents reflect different strategic orientations and fulfill different competitive and growth objectives (see Table 1).

Natural resource seeking aims to secure a firm's supply of resource inputs either for its own production or for sales to business partners outside the host country (Ramasamy, Yeung, & Laforet, 2012). While natural resource seeking FDI may enhance a firm's supply reliability and thus protect its current competitive position, it does not normally improve the firm's ability to utilize and add value to the resources, which is the key factor differentiating a market leader from the followers. Market seeking FDI aims to strengthen a firm's market presence in existing or new foreign markets. It often involves the acquisition of local assets that are expected to gain competitive advantages in specific markets. However, in contrast to SAS, market-seeking objectives are limited to the host country (or region), and do not involve upgrading or change of the investing parent organization. Efficiency seeking is often subsequent to market seeking as efficiency is gained from integrating operations in multiple foreign markets to achieve rationalization and global synergy (Dunning & Lundan, 2008). Efficiency seeking FDI serves to exploit, and possibly extend, existing firm competitive advantages in the short-to-medium term; but it does not fundamentally transform a firm's core competence to enhance its long-term competitiveness. In general, natural resource seeking, market seeking, and efficiency seeking intents, while potentially and incrementally contributing to an EE firm's global competitiveness, are not sufficient to drive a catch up with global leaders who possess superior strategic assets.

As shown in Table 1, SAS intent is distinct from the other FDI intents in that it is assets-exploring in nature and aims to transform the investor's core competency and competitive position (Dunning & Lundan, 2008; Kogut & Chang, 1991; Makino et al., 2002). SAS FDI involves the acquisition of knowledge-based resources that exist outside the firm's boundaries such as technology, brands, and managerial know-how. Moreover, this process of acquisitive learning enables experimental learning, where the firm integrates and exploits the acquired strategic assets to create firm-specific advantages (Zahra, Nielsen, & Bogner, 1999). Ultimately, SAS FDI is intended to renew a firm's core-competences and markets by enabling radical improvements to its current knowledge base and competitive position. It typically involves aggressive and long-term oriented competitive actions which form the foundation for a competitive catch-up strategy (Li et al., 2012; Luo & Tung, 2007; Rui & Yip, 2008). Therefore, compared to other FDI intents, SAS intent reflects an EE firm's strategic objective to transform its core-competences and catch-up and compete with global market leaders in the long run.

### 2.2. Extending the AMC framework to a competitive catch-up context

The AMC framework suggests that the choice of strategic actions is driven by decision makers' awareness, motivation, and capability (Chen, 1996; Smith, Ferrier, & Ndofor, 2001). It has guided research in competitive dynamics (Chen, 1996; Chen & Hambrick, 1995; Chen, Su, & Tsai, 2007; Ferrier, 2001), as well as international business (Hutzschenreuter & Gröne, 2009; Gimeno, 1999; Meyer & Sinani, 2009; Yu & Cannella, 2007).

Most applications of the AMC framework have focus on competitive actions between existing rivals at leveled or similar competitive positions. However, we are interested in strategic actions that aim at competitive catch-up, where firms pursue strategic intent to transform their competitive positions against market leaders to whom they aim to catch up in the future (Hamel & Prahalad, 1989). We therefore use the AMC dimensions to guide our search for external and internal characteristics of firms that