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Emerging market firms' acquisitions in advanced markets: Matching strategy with resource-, institution- and industry-based antecedents

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Summary This study draws upon the resource-based view and the institution-based view of the firm to provide a comprehensive overview of how different resource-, institution- and industry-based antecedents affect the motivations guiding the acquisitions that emerging market firms undertake in advanced markets. These antecedents can influence emerging market firms' capacities to absorb or exploit technological and/or marketing advantages in advanced markets. In order to be successful, emerging market firms have to undertake those upmarket acquisitions that best ''fit'' their antecedents. Four mutually exclusive acquisition strategies are derived, which are then illustrated using examples of Indian firms' acquisitions in advanced markets.

Introduction

A growing number of emerging market (EM) firms are showing extraordinary competitiveness in global markets, thus attracting the interest of both media and academia. Some of them are challenging competitors from advanced markets (AMs) (*The Economist*, 2010), and are developing significant technological, organizational and strategic innovations (Gaur & Kumar, 2010; Mathews, 2006). This phenomenon is widespread among EMs[1] (Gammeltoft, Barnard, & Madhok, 2010).

Given the growing visibility of EM firms' international expansion, an extensive body of literature has focused on this context. Scholars have studied EM firms' internationalization drivers (Athreye & Kapur, 2009; Aulakh, 2007), entry modes (Duysters, Jacob, & Lemmens, 2009), growth rates (Arora, Arunachalam, Asundi, & Fernandes, 2001; Fortanier & Van Tulder, 2008) and host location choices (Duysters et al., 2009; Morck, Yeung, & Zhao, 2008). They have also investigated the ownership structures and relational assets

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[1] ''Emerging markets'' are defined as low-income, rapid growth economies that have experienced radical institutional changes in terms of increased openness and liberalization (Hoskisson, Eden, Lau, & Wright, 2000). EMs comprise Middle and South America, Africa, and the ASEAN countries. ''Advanced markets'' are represented by North America, Western Europe, Australia, New Zealand and Japan.

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of these internationalizing firms (Arora et al., 2001; Bhaumik, Driffield, & Pal, 2010; Douma, George, & Kabir, 2006; Elango & Pattnaik, 2007; Filatotchev, Liu, Buck, & Wright, 2009; Morck et al., 2008), and the performance effects of their internationalization (Aulakh, 2007; Douma et al., 2006).

In the 1970s, only a small number of EM firms had internationalized, often in neighbouring regions through limited foreign operations (Gammeltoft et al., 2010). The impressive recent emergence of EM firms' foreign investments has therefore fuelled a debate over potential explanations and whether these explanations can be linked to traditional theoretical perspectives based on mature AM firms (Fortanier & van Tulder, 2009). Some authors claim that traditional theoretical explanations are largely suitable for EM firms (see Narula, 2006; Rugman & Li, 2007), whereas others argue that EM firms should be studied using different perspectives (cf. Madhok & Keyhani, 2012; Mathews, 2006).

Despite this vast body of literature, a unified, comprehensive theoretical framework that explains the internationalization of EM firms is still lacking (Sun, Peng, Ren, & Yan, 2012). Scholars in this stream of research tend to present partial, and sometimes radically opposite, explanations. For instance, EM firms are sometimes said to undertake acquisitions in AMs to gain access to the traditional advantages they otherwise lack (Duysters et al., 2009; Mathews, 2006; Mathews & Zander, 2007). At other times, such acquisitions are described as a sign of EM firms' abilities to exploit their advantages abroad, just as AM firms can normally do (e.g., Rugman & Li, 2007). In other words, no consensus has been reached regarding the augmenting or exploiting motivations for EM firms' acquisitions in AMs.

With regard to this theoretical controversy, the current paper aims to answer two interrelated questions about EM firms' internationalization: *Which motivations guide EM firms' acquisitions in AMs*? and *Which EM firms should follow augmenting, rather than exploitative, acquisitions in AMs?* I answer these questions by identifying four comprehensive, mutually exclusive types of EM firms' acquisitions in AMs, which reflect the different motivations and characteristics of EM firms. I then suggest that, in order to be successful, EM firms should undertake those acquisitions that best ''fit'' their characteristics. In this way, the paper contributes to the extant literature by claiming that the heterogeneous internationalization motives of firms with potentially weak advantages and home institutions — such as EM firms — can be explained by looking at those firms' antecedents that capture their home contexts' peculiarities.

The paper draws upon the resource-based view (RBV) and the institution-based view (IBV) of the firm, which are often used in studies of EM firms' strategic behaviour (e.g., Hoskisson et al., 2000; Peng & Heath, 1996). Based on this framework, the paper links the resource-, institution- and industry-based levels of analysis (Peng, Wang, & Jiang, 2008), which together can explain EM firms' antecedents to acquisitions in AMs.

The theoretical contribution of this paper consists of a new comprehensive approach to the study of EM firms' acquisitions in AMs, which stresses the importance of heterogeneity in firm characteristics to explaining the motivations behind such acquisitions. EM firms can have very different characteristics and follow a variety of strategies, even when they come from similar institutional contexts and enter similar AM host locations through the same internationalization mode. In this regard, this paper takes the complexity of the phenomenon into account and provides a single comprehensive theoretical framework to address it.

This paper enriches the discussion by providing several firm-level examples derived from the under-researched Indian context (Kumar, 2009). After the main period of liberalization, which started in 1991, acquisitions in AMs became the preferred form of internationalization for Indian firms (Athreye & Godley, 2009; Sun et al., 2012). The theoretical arguments presented here, however, are not India-specific, but apply to EM firms in general.

The rest of this paper is organized as follows. Section 2 presents the theoretical background of the study, including possible motivations for EM firms' acquisitions in AMs and the antecedents to those acquisitions. Section 3 answers the main research questions by developing a theoretical model that identifies four acquisition strategies and links them to the various antecedents of acquiring EM firms. Section 4 presents the conclusions.

Theoretical development

In recent years, the number of acquisitions undertaken by EM firms in AMs (''upmarket acquisitions'', see Ramamurti, 2009) has increased considerably (Athreye & Kapur, 2009). For instance, the Chinese firm Lenovo acquired the personal computer branch of IBM in 2004 (Schüler-Zhou & Schüller, 2009), and the Indian company Suzlon Energy successfully acquired the Belgian company Hansen Transmissions in 2006 (Lewis, 2007) and the German company Repower in 2007 (Tiwary & Herstatt, 2009). Other Indian firms, such as Hindalco and Bharat Forge, systematically use upmarket acquisitions as their key internationalization strategy (Kumar, 2009).

Upmarket acquisitions are not the only option available to EM firms wishing to internationalize and connect to AMs. For years, EM firms have experienced high levels of inward foreign direct investments (FDIs), and have served as subcontractors of and collaborators with AM firms (D'Costa, 2000). EM firms, such as firms in the Indian automotive industry, have also undertaken greenfield investments in AMs (Bhaumik et al., 2010).

Undoubtedly, upmarket acquisitions are an important phenomenon for EM firms (Aulakh, 2007; Bhaumik et al., 2010; Gammeltoft et al., 2010; Gaur & Kumar, 2010) for several reasons. EM firms, which generally have weaker technological and marketing advantages (Dunning, Kim, & Park, 2008; Duysters et al., 2009), may prefer acquisitions, as they allow these firms to quickly cover the gap between their capabilities and those of AM players. For instance, the Indian firm Wockhardt established an international joint venture (JV) with the German firm Rhein Biotech. As Wockhardt failed to augment its technological capabilities through the JV, it decided to take over Rhein Biotech (Athreye & Godley, 2009). Such examples exemplify the difficulties that EM firms face in collaborating with AM firms — the insurmountable capability gap between the two partners can discourage the adoption of a collaborative strategy (Rabbiosi, Elia, & Bertoni, 2012). In contrast, upmarket acquisitions can provide quick access to some of the AM