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The evolution of strategic asset-seeking acquisitions by emerging market multinationals

Stefano Elia[a,*], Grazia D. Santangelo[b]

[a] Department of Management, Economics and Industrial Engineering, Politecnico di Milano, Piazza Leonardo Da Vinci, 32-20133 Milano, Italy
[b] Department of Political and Social Science, University of Catania, Via Vittorio Emanuele 8, 95131 Catania, Italy

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ABSTRACT

We study the extent to which emerging market multinational enterprises (EMNEs) engage in strategic asset-seeking acquisitions in advanced countries in relation to the strength of their home- and host-country national innovation system (NIS). We suggest that early acquisitions by EMNEs were used to compensate for the EMNEs relatively weak home NIS, and targeted weaker host NIS to limit the cognitive gap EMNEs would need to address. Instead, more recent acquisitions by EMNEs are supported by a stronger home NIS, and target firms in stronger host NIS. We also propose that acquisitions by high-tech (*versus* non-high-tech) EMNEs need a stronger home NIS due to the technological complexity of the industry, and are limited when the complexity of a stronger host NIS adds to the industry context. We find support for most of our arguments on 179 acquisitions in the Triad by Brazilian, Russian, Indian and Chinese multinationals.

1. Introduction

Emerging country multinational enterprises (EMNEs) have increasingly internationalized in the Triad (*i.e.* North America, Europe and Japan) since the 2000s through cross-border acquisitions mainly to access new valuable (often intangible) resources and improve their competitiveness (Luo & Tung, 2007; Mathews, 2006; Rabbiosi, Elia, & Bertoni, 2012; Ramamurti, 2012; Thite, Wilkinson, Budhwar, & Mathews, 2016). A number of cases illustrate this strategy. In the middle 2000s, the conglomerate Russian company Renova acquired the Italian group Kerself specialized in the photovoltaic industry, with the aim to access distinctive knowledge and skills in renewable energy, an area of strong interest for the company (Spigarelli, 2011). The Indian group Tata undertook a sequence of acquisitions of technologically advanced firms in UK (Corus Steel, Tetley Tea, Jaguar and Land Rover) over the 2000s with the explicit aim of gaining luxury brands, upgrading its managerial competences and enhancing its competitiveness. More recently, the Chinese group Geely took over the Swedish carmaker Volvo and the British Manganese Bronze (manufacturing London Taxis), in order to acquire brands and technologies, and to strengthen its position both in its home market and in the US (Meyer, 2015). The internationalization process of Brazilian companies such as Petrobras and Embraer has also been largely driven by the intention to accumulate technological assets and capabilities (Carvalho & Goldstein, 2009).

Strategic asset-seeking acquisitions, at least initially, have been dictated by the need to address the “liability of emergingness” of EMNEs willing to access abroad strategic assets not available at home (Child & Rodrigues, 2005; Deng, 2009; Rui & Yip, 2008) because of their relatively weak home-country national innovation system (NIS). At the same time, the more sophisticated markets for technology and for other intangible assets in the advanced host countries have traditionally created a disadvantage for EMNEs, which, being used to operate in “difficult” home country conditions (Cuervo-Cazurra & Genc, 2008), needed to deal with a high technological and institutional gap when investing in relatively stronger host-country NIS (De Beule, Elia, & Piscitello, 2014; Li, Li, & Wang, 2016).

Meanwhile, emerging country NIS and EMNEs have co-evolved in the last two decades (Gammeltoft, Pradhan, & Goldstein, 2010), and this evolution is likely to reflect in the different rationale underlying the early and more recent acquisitions undertaken by these firms. In addition, EMNEs operate in different industry contexts, which is a critical factor influencing opportunities and risks associated to EMNEs’ international operations (Ramamurti & Singh, 2009; Ramamurti, 2012; Wang, Hong, Kafouros, & Boateng, 2012). Yet, we still have a limited knowledge about the contingent

* Corresponding author.
E-mail addresses: stefano.elia@polimi.it (S. Elia), grsanta@unict.it (G.D. Santangelo).

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effect of the age of the acquisitions by EMNEs and the EMNE's industry context on the relationship between the strength of EMNEs' home- and host-country NIS, and the extent to which EMNEs undertake strategic asset-seeking acquisitions in advanced countries.

To fill this gap, we draw on research on EMNEs and innovation studies (Criscuolo, Narula, & Verspagen, 2005; Cuervo-Cazurra, 2012; Narula, 2015; Ramamurti 2012) to suggest that less recent acquisitions by EMNEs in advanced economies were aimed at accessing strategic assets in order to compensate for the EMNEs' relatively weak home-country NIS. Instead, more recent strategic asset-seeking acquisitions by EMNEs are supported by a stronger home-country NIS. We also suggest that the strength of the host advanced-country NIS discouraged strategic asset seeking in less recent deals, while in more recent deals EMNEs engage in strategic asset seeking to a greater extent in relatively strong host-country NIS. In addition, we argue that the relationship between the strength of the home- and host-country NIS, and the extent to which EMNEs engage in strategic asset-seeking acquisitions is contingent on the EMNE's industry context. High-tech (*versus* non-high-tech) EMNEs require a stronger home-country NIS to substantially engage in strategic asset-seeking acquisitions due to the technological complexity of their industry context. Instead, the double complexity of the local and industry contexts, which high-tech (*versus* non-high-tech) EMNEs have to face when acquiring targets in relatively strong host-country NIS, reduces the extent to which EMNEs engage in strategic asset-seeking acquisitions in locations with strong NIS.

By relying on a dataset recoding information at firm, home and host country-level from multiple sources, we test and find empirical support for most of our arguments on a sample of 179 acquisitions in the Triad by firms headquartered in Brazil, Russia, India and China (BRIC) between 1999 and 2014.

Our study contributes to research on the internationalization of EMNEs by offering theoretical arguments and multi-country quantitative evidence on the role of the home- and host-country NIS on strategic asset-seeking acquisitions by EMNEs and the evolution of the rational for such acquisitions. Additionally, we elaborate and empirically support the claim of the relevance of the industry context in EMNEs internationalization, which has so far been overlooked (Ramamurti & Singh, 2009; Ramamurti, 2012).

Our research also provides relevant managerial and policy implications. In particular, we warn managers that high-tech EMNEs face greater constraints than non-high-tech ones when cross-border strategic asset-seeking acquisitions are used as a means to compensate for relative weak home-country NIS. The related suggestions for policy makers in emerging countries is that substantial investments aimed at strengthening the country NIS are required to promote the internationalization of EMNEs operating in high-tech industries.

2. Conceptual background

Strategic resources and capabilities are often spatially determined rather than simply existing within any single firm (Enlight, 1998) and the NIS of a country plays a critical role in this process. A country NIS mirrors the country's ability to produce new knowledge (Freeman, 1987, 1988; Lundvall, 1992; Nelson, 1993) as a result of an efficient education system (Freeman, 1987), strong interconnections among the actors (Jaffe, 1986) and solid institutions and regulatory framework (Furman, Porter, & Stern, 2002; Lundvall, 1992). Hence, a country NIS captures both the technological as well as the institutional strength of the country.

In addition, "the home country plays a significant role in constraining and defining the kinds of assets an MNE possesses" (Narula, 2015). Firms of each country tend to embark on a path of technological accumulation that has certain unique characteristics and that sustains a distinct profile of national technological specialization (Cantwell, 1989). At the same time, firms invest abroad to seek new knowledge, technology and strategic assets, which are sourced from the host-country NIS (Criscuolo et al., 2005). A firm's perception of what is relevant and valuable in the host country tends to be constrained by the home-country NIS, which provides the necessary knowledge and advanced infrastructures that feed the firms' absorptive capacity and support strategic asset-seeking investments (Narula & Nguyen, 2011). Thus, the acquirer's absorptive capacity (Cohen & Levinthal, 1990) is a function, among others, of the strength of the home-country NIS (Criscuolo & Narula, 2008; Patel & Pavitt, 1999).

The strength of the home-country NIS is critical in defining the cognitive gap the acquirer needs to deal with in order to be able to source effectively the tacit component of knowledge of the target and to benefit from spillovers arising from the pool of resources in the host country. Access to these assets is not immediate after acquisition, and additional investments are required by the acquirer to maximize sharing and absorption of the target firm and the local context's knowledge (Graebner, Eisenhardt, & Roundy, 2010; Ranft & Lord, 2002). In particular, the acquirer needs to invest in local relationships by adapting to local practices and procedures, and by understanding values, incentive structures, norms and conventions that influence the economic behavior in the host country, in order to reduce its liability of foreignness (Eden & Miller, 2004). Gaining familiarity, and developing and maintaining strong linkages in the host country are likely to be an expensive and time-consuming process (Criscuolo et al., 2005). The costs of this process become even more prohibitive if the host-country NIS is institutionally distant and technologically more advanced than the home-country NIS because of the resulting cognitive gap the acquiring firm needs to deal with (Criscuolo et al., 2005; Zanfei, 2000).

Like other firms, EMNEs require the capabilities to evaluate, acquire, and integrate knowledge and technology from external sources to secure strategic assets (Guillén & García-Canal, 2009; Narula & Nguyen 2011). These capabilities are influenced by their home country conditions and, hence, are a function of the strength of their home-country NIS (Narula, 2015), which defines the cognitive gap EMNEs need to deal with when engaging in strategic asset-seeking acquisitions in advanced countries with notably stronger NIS. Hence, the strength of the home- and host-country NIS is a critical factor that needs to be accounted for in order to understand the extent to which EMNEs undertake strategic asset-seeking acquisitions in advanced countries. Yet, emerging country NIS and EMNEs have evolved in the past decades and this evolution bears critical implications for EMNEs acquisition strategies (Gammeltoft et al., 2010).

2.1. The evolution of emerging countries NIS

The notion of NIS has been traditionally developed in the context of advanced countries, and its application to developing countries is more recent (Pietrobelli & Rabellotti, 2009). Emerging country NIS have been depicted as being weaker than advanced countries NIS due to several reasons. First of all, the amount of R&D carried out by national governments, universities and companies in emerging countries has been traditionally lower than in advanced countries. In addition, R&D activities are often more related to products (rather than processes), more oriented to imitation (rather than entrepreneurship), and more based on incremental (rather than radical) innovations (Chaminade, Lundvall, Vang, & Joseph, 2009; Motohashi & Yun, 2007; Oyelaran-Oyeyinka, 2006; Pietrobelli & Rabellotti, 2009). Second, the capacity to build competences and to create skills by the education