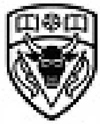

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ACQUISITIONS AS ENTREPRENEURSHIP: ASYMMETRIES, OPPORTUNITIES, AND THE INTERNATIONALIZATION OF MULTINATIONALS FROM EMERGING ECONOMIES

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We investigate the rapid internationalization of many multinationals from emerging economies through acquisition in advanced economies. We conceptualize these acquisitions as an act and form of entrepreneurship, aimed to overcome the 'liability of emergingness' incurred by these firms and to serve as a mechanism for competitive catch-up through opportunity seeking and capability transformation. Our explanation emphasizes (1) the unique asymmetries (and not necessarily advantages) distinguishing emerging multinationals from advanced economy multinationals due to their historical and institutional differences, as well as (2) a search for advantage creation when firms possess mainly ordinary resources. The argument shifts the central focus from advantage to asymmetries as the starting point for internationalization and, additionally, highlights the role of learning agility rather than ability as a potential 'asset of emergingness.' Copyright © 2012 Strategic Management Society.

INTRODUCTION

In spite of the surge in outward foreign direct investment (FDI) by firms from emerging economies, relatively little is known about the internationalization processes of these firms (Cuervo-Cazurra and Genc, 2008; Peng, Wang, and Jiang, 2008). Compared to the more established multinational enterprises from developed economies (DMNEs), the (1) starting points as well as the (2) internationalization patterns and paths of multinationals from emerging economies (EMNEs) are quite distinct. For one, EMNEs tend to be based in countries that can be characterized by low- to middle-income levels and weak institutional environments, often do not possess proprietary advantages such as technology and brand when they venture abroad, and tend to be latecomers entering a crowded arena (Ramamurti and Singh, 2009). Moreover, EMNEs appear to be charting a different path in terms of their speed, scope, and means of internationalization, as reflected both in terms of destination countries as well as the means of internationalizing. They have not only internationalized rapidly,[1] but have surprised observers by their bold methods in the early stages of their outward internationalization (Sirkin, Hemerling, and

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[1] From a low figure of less than 6 percent a couple of decades earlier, outward FDI from emerging economies accounted for 15 percent of the $2 trillion global FDI outflow in 2007 (Almeida *et al*., 2010).

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Bhattacharya, 2008), (1) entering aggressively into advanced economies and (2) showing a marked interest in acquisitions as part of their internationalization strategy into these countries (Athreye and Kapur, 2009; Nayyar, 2008; UNCTAD, 2006).[2]

These distinct characteristics and behaviors of EMNEs raise questions about existing theories, both at the macro- and micro-level, and call for new explanations. With roots in the international business and economics literature, the dominant theories on the outward investment and internationalization activities and strategies of firms—such as the international product life cycle model (Vernon, 1966), the stages model (Johanson and Vahlne, 1977), and the ownership-location-internalization framework (Dunning, 1988)—reflect the experiences of multinational firms from the U.S. and Europe a few decades ago. In contrast, we explicitly use the emerging economy context for theory development, something that is much needed in the literature (Peng *et al*., 2008).

We focus specifically on the question of what explains the phenomenon of internationalization through acquisitions in developed economies.[3] This particular aspect of internationalization and foreign direct investment has been neglected by conventional international business theories and has remained understudied empirically (Gubbi *et al*., 2010).[4] Although understandable earlier due to the paucity of 'south-north' flows, such neglect can no longer be justified (Ramamurti and Singh, 2009). We specifically contribute to this gap, both theoretically and in an applied sense. Theoretically, we combine insights from Miller's (2003) notion of asymmetries with developments in the field of strategic entrepreneurship—an emerging area that lies at the intersection of strategy and entrepreneurship (Ireland, Hitt, and Sirmon, 2003)—to analyze the internationalization strategies of EMNEs. We then apply this lens toward acquisitions and propose a fresh argument explaining acquisition as a novel and 'unorthodox' kind of entrepreneurship.

The international business and multinational strategy literature has tended to almost exclusively focus on firm advantage and has emphasized, even assumed, the need and necessity of the foreign firm to have a firm-specific advantage through possession of valuable resources in order to compensate for the disadvantage of being a foreign firm in local markets—the so-called liability of foreignness (LOF) (Hymer, 1976; Zaheer, 1995). In contrast, the asymmetry-based view recognizes the hidden potential in ordinary or even disadvantaged resource positions (Miller, 2003) that can ultimately give rise to competitive advantage.[5] Accordingly, the theoretical framework suggested in this article emphasizes strategic entrepreneurship starting from unique asymmetries rather than already advantageous resources. The notable departure from traditional international business perspectives is to shift the central focus from advantage (and already advantageous resources) to asymmetry as the starting point.

There are two key aspects to the argument. On the one hand is the 'shadow of the past,' which emphasizes the path-dependent nature of firm strategy and behavior. The basic contention here is that a firm's routines are shaped by its past experiences and become part of its DNA. Thus, if a firm's position, prior path, and developmental experiences were to differ, its way of doing things, i.e., its mind-set and routines, correspondingly differs and, being embedded within the firm, cannot be changed or imitated easily (Nelson and Winter, 1982; Dierickx and Cool, 1989). On the other hand is the 'promise of the future,' which emphasizes the ability to create or shape the future path through both conscious and strategic actions and decisions of the firm (Teece, Pisano and Shuen, 1997) as well as, importantly, a heightened alertness and flexibility as it seeks out future opportunities with the intent to convert these into firm advantage.

The gist of the argument

In the particular context of EMNEs, the argument is applied as follows: given their distinct development paths and learning experiences relative to DMNEs,

[2] Some recent figures accentuate this point. From a negligible amount less than 10 years earlier, Indian firms, who were the most active acquirers (The Economist, 2008), conducted cross-border M & A deals in 2007 worth about $22.5 billion, of which $20 billion was in developed economies (Accenture, 2008).

[3] We explicitly exclude state-owned or natural resource-dominated investments from our argument since the drivers tend to be of a different nature.

[4] Given their recency, it is too early to assess the outcomes of these acquisitions, though no big acquisition has failed so far (*The Economist*, 2007) and there is some initial evidence of abnormal returns to such acquisitions (Gubbi *et al*., 2010).

[5] Although Miller (2003) does in one instance refer to the process as 'entrepreneurial' and the descriptions in his paper read like entrepreneurship case studies, the link to the entrepreneurship concept and literature is not emphasized in that work.

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EMNEs have unique characteristics that, although may initially seem less advantaged or even burdensome, nevertheless represent both positional and resource asymmetries. Such asymmetries originate in the particular institutional context that shaped the formation of these firms. Bundled together, these can be harnessed to achieve advantage if managed strategically in combination with the resources at hand as well as external resources of others. Internationalization exposes the firm to a novel set of opportunities that allows it to harness the potential latent in and stemming from such asymmetries. Acquisition is one means of internationalization—though clearly not the only one—that is particularly well fitted to the asymmetries that characterize EMNEs. In particular, acquisition serves two purposes that respectively address issues concerned with the shadow of the past and the promise of the future. First, acquisition serves to overcome what can be considered as the 'liability of emergingness' (LOE), defined as the additional disadvantage that EMNEs tend to suffer (over other foreign DMNEs) by virtue of being from emerging economies.[6,7] Second, it initiates a process that places the firm within a particular flow of opportunities (Bingham, Eisenhardt, and Furr, 2007). Accordingly, acquisition can be viewed as a form of strategic (corporate) entrepreneurship that aims to develop and exploit the potential resident in the unique asymmetries characterizing EMNEs.[8]

In a nutshell, outward internationalization by EMNEs in advanced economies through acquisition can be explained by (1) asymmetries between EMNEs and DMNEs due to their historical and institutional differences and (2) a search for advantage creation through strategic entrepreneurship when firms possess mainly ordinary resources. By ordinary resources, we mean resources that have traditionally not been considered to be the source of extraordinary rents, as is the case, for instance, for technologies or brands that are argued to underpin a monopolistic firm-specific advantage. Thus, even though EMNEs may have some advantage arising from their set of resources and capabilities (such as a low-cost position), these tend to be weaker or less robust in terms of sustainable rent generation than in the case of DMNEs.

The key issue here is to begin with what(ever) a firm has and then build upon it to augment the rent-generating capacity of its resources and, ultimately, create more sustainable and valuable firm-specific advantages. This is where the strategic entrepreneurship argument becomes relevant. In the asymmetry-based view's spirit of seeing potential where it has not yet been realized, we also suggest toward the later part of the article that for EMNE firms, the LOE may potentially be a 'cloud with a silver lining,' in that embedded within it may lie a latent 'asset of emergingness.' This 'asset' is depicted as a kind of entrepreneurial alertness and learning agility honed within the emerging economy context that may eventually help bring about the conversion of the LOE into an advantage over DMNE firms. Such an agility potentially enables the EMNE firm to discover opportunities available through acquisitions and capitalize on these by better facilitating the assimilation of knowledge through such acquisitions.

The rest of the article proceeds as follows: Section 2 lays out the theoretical background. Section 3 focuses on the empirical context of emerging economies and EMNEs. Section 4 examines the phenomenon of acquisitions by EMNEs in advanced economies. We end this section by elaborating on how asymmetries can fuel an 'asset of emergingness' that potentially confers certain entrepreneurial advantages to EMNEs that would not be easily available to DMNEs. Section 5 discusses some of the implications, both for competitive catch-up by EMNEs as well as for extant theory.

THE THEORETICAL BACKDROP: ASYMMETRIES AND STRATEGIC ENTREPRENEURSHIP

The thrust of traditional theories of the multinational enterprise has mainly been on the exploitation of an

[6] Whereas liability of foreignness is the general case that applies to all foreign firms, the LOE refers specifically to the extra burden that arises from being an emerging economy firm, strictly because they are from emerging economies.

[7] The LOE is distinct from the liability of newness. The liability of newness is a reflection of firm age and, with respect to internationalization, refers to new (or young) firms internationalizing. Our context is mainly about more mature firms newly internationalizing. Accordingly, the LOE has more to do with these firms being embedded and having their formative experiences in emerging host economies. The two concepts are distinct, though at times the argument can be confounded, e.g., weak multinational management capabilities. For the same reason, the LOE concept is distinct from that of latecomer disadvantage.

[8] We are not claiming that this is the only reason for acquisitions, and there are obviously other reasons why firms acquire, e.g., purchase market share, brands, hubris, copycatting, etc. We acknowledge these, but they are not of direct concern to our argument.

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already existing firm-specific resource-based advantage, often referred to as the ownership advantage (Dunning, 1988), although this was later extended to also incorporate exploration as an important motivation for the international expansion of MNEs (Anand and Delios, 2002; Dunning, 1993). More recently however, critics (Mathews, 2006; Luo and Tung, 2007) have pointed out that even this may not suffice and, in particular, that internationalization is not just about learning or asset seeking, but also about overcoming the distinctive challenges that face recently emerging multinationals.

Building on this, in this section we outline a theoretical framework that explicitly brings entrepreneurship into the heart of the argument and goes beyond exploration to discovery. Entrepreneurship scholars have described the entrepreneurial process as 'pursuing opportunity regardless of the resources under control' (Stevenson and Jarillo, 1990: 24) or, more dramatically and controversially, 'creating something from nothing' (Baker and Nelson, 2005). As we show, these descriptions are particularly well suited to EMNEs.

The focus on an existing present advantage also underlies the strategic management literature. For example, the resource-based view of the firm focuses on the extant competitive advantage stemming from currently valuable, rare, inimitable, and non-substitutable resources. In contrast, the asymmetry-based view (Miller, 2003) relaxes this condition and allows for a more forward-looking view to the potential future advantage rather than presently realized advantage. This forward-looking view is precisely what is embodied in the 'opportunity' concept espoused in the entrepreneurship literature (Shane and Venkataraman, 2000), with opportunity defined, for example, as a 'future situation which is deemed desirable and feasible' and 'by definition, something beyond the current activities of the firm' (Stevenson and Jarillo, 1990: 23).

Miller's (2003: 962) study found examples of firms that had 'started with little and ended up with a lot' and where their achievements 'did not usually emerge out of clear strengths or resources in the economic sense, but rather out of asymmetries: a firm's inimitable uniqueness and even weakness. In effect, firms began with modest or even disadvantaged situations and extracted sustainable resources and capabilities,' which eventually solidified their competitive advantage.

The shift of focus from realized advantage to opportunity (i.e., potential advantage) in entrepreneurship is based on the idea that entrepreneurial rents originate from the inherent and genuine uncertainty (Rumelt, 1987) that makes the future not only unknown, but unknowable (O'Driscoll and Rizzo, 1985; Shackle, 1979). As stated by Alvarez and Barney (2007: 15) 'rarely will entrepreneurs be able to see "the end from the beginning".'

Linking the opportunity hidden in the potential of asymmetries to the notion of opportunity in the entrepreneurship literature brings us to the different schools of thought on whether opportunities are discovered or created (Alvarez and Barney, 2007). From the point of view of this article, there are elements of both discovery and creation in the internationalization of EMNEs. With respect to the former, to more fully capture the strategic value potential of opportunities, strategy consists of engaging in organizational processes that put the firm within an abundant flow of attractive opportunities (Bingham and Eisenhardt, 2008). In regard to the latter, the alert firm goes one step further and finds a way to convert the potential inherent in opportunities into advantage through a skillful combination of its own and others' resources. The two aspects bring together the entrepreneurial and management capacity of the firm.

Sarasvathy's (2001) approach toward entrepreneurship, like Baker and Nelson's (2005)—that entrepreneurship is also about making the most of what you have—becomes relevant here. She posits effectuation as a different way of looking at entrepreneurship, one that is more creation oriented and ascribes a much more active role to the entrepreneur. Effectuation processes 'take on a set of means as given and focus on selecting between possible effects that can be created with that set of means' (Sarasvathy, 2001: 245). To put it differently, entrepreneurship entails taking whatever resources the entrepreneur has available and focusing on the various outcomes that can be created with those resources in an active and somewhat open-ended process.

In a sense, through his actions, the entrepreneur is engaged in a directed search where the general direction serves as a compass and yet, since not everything can be foreseen in advance, is combined with an open-endedness in the process of getting there. This places a premium on characteristics such as alertness, improvisation, and resourcefulness that allows far more room to both respond to opportunities and contingencies as they arise (Kirzner, 1997) as well as to shape outcomes.

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In our context, internationalization is one key domain of strategic entrepreneurship (Hitt, *et al*., 2001), a field that combines entrepreneurship—opportunity-seeking behavior—with strategic management—advantage-seeking behavior stemming from firm resources (Ireland *et al*., 2003). Although the two have tended to have been treated somewhat independent of one another, more than five decades ago Penrose (1959) highlighted the reciprocal relationship between the two. She reasoned that, since the potential of opportunities cannot be attained without the requisite resources to realize them and vice versa, the matching of opportunities and resources through entrepreneurial and managerial capabilities is what determines the true scope of the productive opportunity set for a firm. In contrast to Penrose (1959), whose focus is more on the firm's own resources, Baker and Nelson's (2005) argument of entrepreneurial 'bricolage' emphasizes a 'vigilant alertness' to the resources of others in the pursuit of opportunities. This then broadens the focus to include external resources not directly controlled by the entrepreneurial firm.

ESTABLISHING THE CONTEXT: EMNES AND THE LIABILITY OF EMERGINGNESS

So far we have put forward the notion that the internationalization pattern of EMNEs can be viewed as a form of entrepreneurship starting from asymmetries. In this section and the next, we take a closer look at what these unique starting conditions look like and what particular implications they have. It has long been accepted in the international business literature that foreign firms suffer from what is termed as the liability of foreignness (LOF), which exists because of geographical, psychological, cultural, and institutional distance between home and host countries (Nachum, 2003; Zaheer, 1995). The LOF occurs for several reasons. First, not knowing the local environment, foreign firms are likely unable to access and enjoy the information and resources available in the host country as easily as local firms who are much more attuned to the local context. Second, compared to local firms, foreign firms often face the additional burden of establishing legitimacy and acceptance in the host country. Third, friction and the need for adjustments in transferring their advantage to a different sociocultural and institutional environment impose an additional burden that local firms do not face (Cuervo-Cazurra, Maloney, and Manrakhan, 2007).

Although a well-established concept, the LOF literature is more concerned with the distinction between foreign firms and local firms and, thus, implicitly assumes all foreign firms to be (more or less) the same. This leads to a corollary implicit assumption that location-based resources are in principle available equally to all foreign firms that participate in a particular location. These assumptions are clearly questionable (also see Zaheer and Nachum, 2011) since they overlook distinctions among foreign firms—in our context between foreign firms from developed and emerging economies. EMNEs face an additional burden and confront specific challenges, especially in advanced economies, simply by being from emerging economies. We referred to this earlier as the 'liability of emergingness.' Whereas the LOF relates to the handicap incurred by firms because of where they *are not* from (i.e., not local), the LOE relates to the handicap incurred because of where they *are* from (i.e., the specific country of origin) (Ramachandran and Pant, 2010). This is well captured by the following statement from the chairman of a leading Turkish firm: 'I am stamped "made in Turkey," not "made in Germany." I have to try harder. . .' (Cuervo-Cazurra and Genc, 2008: 957).

The LOE occurs for various reasons, both external and internal to the firm. In contrast to MNEs from advanced economies, the national environments within which emerging economy firms operate typically suffer from a number of disadvantages that become particularly apparent when the firm enters the more competitive global arena. First, on the external front, they tend to be characterized by underdeveloped markets, unsophisticated customers, weak suppliers, and other input scarcities, as well as infrastructure bottlenecks (Ramamurti and Singh, 2009). Additionally, their soft infrastructures, e.g., regulatory, are also underdeveloped, resulting in many institutional voids (Khanna and Palepu, 1997). These various factors collectively create an institutional deficit which erodes competitiveness (Luo and Tung, 2007). Moreover, high cultural and institutional distance between home and host economies creates greater adjustment costs (Miller and Parkhe, 2002), although historical ties between nations can help mitigate this (Rangan and Drummond, 2004).

Second, on the internal front, for many EMNEs being based in previously protected economies, the

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erstwhile limited exposure to global competition and the consequent lower technological and managerial standards in the home country results in inadequate resources and capabilities compared with competitors from industrialized countries. This would also impede adequate insight into the more sophisticated business and institutional environment of the host country. Basically, managerial capabilities and style developed in a different and less competitive context may not suffice or be so well suited, resulting in a managerial and capability deficit.

Third, as a result of the earlier two, there is a credibility and legitimacy deficit in the eyes of host country stakeholders, who become even more circumspect due to insufficient or missing knowledge of foreign EMNE firms, their quality and safety standards, and the like (Schmidt and Sofka, 2009).[9] Consequently, though resources (e.g., personnel) can, in principle, be accessed through the market, being an outsider lacking in status, credibility, and legitimacy, makes it difficult to attract the best quality personnel. For similar reasons, EMNEs face problems attracting the most sophisticated suppliers and users who could help them improve their capabilities to the extent needed.

Clearly, the LOE would be particularly pronounced when the host country is more advanced. How can EMNEs overcome the LOE? The international business literature emphasizes the importance of some monopolistic firm-specific resource in the possession of the MNE, typically advanced technology or brand,[10] the advantage and consequent rents from which shields the multinational firm from the liability of foreignness. Yet, this does not so readily apply to the EMNE since, as mentioned, most of their sources of advantage at home tend to be more location bound. Consequently, their competitive advantage overseas, in particular in the advanced economies, tends to be more efficiency- than monopoly-based, revolving around low cost and price competition rather than technology or brand, which is not so easily sustainable over the longer term.[11]

The net effect is that EMNEs not only face a competitive disadvantage over local as well as other foreign firms due to the LOE but, additionally, the rents from the resources that they do possess may not suffice to compensate. Together, this results in a ‘double negative’ and creates an enormous ‘advantage deficit’ that poses a daunting challenge. Yet we are witnessing a relentless increase in the pace, intensity, and reach of the internationalization activities of these firms (Boston Consulting Group, 2009). We argue in the next sections that combining what they do have, namely their ‘management technology,’ with the resources and opportunities of the acquired firm helps them overcome this dilemma and transform their resources.

Clearly, if conventional explanations are found lacking, then a departure from traditional perspectives is needed to explain the (unconventional) behavior of EMNEs. This brings us back to the theoretical framework of asymmetries and strategic entrepreneurship. In contrast to DMNEs, it is the disadvantage rather than advantage that motivates EMNE firms to internationalize (Moon and Roehl, 2001). Internationalization not only enables the firm to confront and (hopefully) overcome the disadvantages resident in their asymmetric positions and resource bundles due to the LOE, but also—as we will explain—to harness the potential latent within such asymmetries through entrepreneurial action. From the arguments in this article, internationalization can be understood as part of an entrepreneurial endeavor to overcome the advantage deficit as well as find needed resources that were unavailable at home, with the means of internationalization being an integral aspect of the process. Viewed from such a position, the world is full of opportunities to harness the resources (and advantages) of others (Mathews, 2006), and the focus shifts away from mainly exploitation and toward a bolder process of exploration and discovery where the resources of others can be tapped in the search for a more robust and rent-bearing basis for competitive advantage.

In this light, we illustrate in the next section how the internationalization of EMNEs through acquisitions may be viewed as an act or event that both presents certain current opportunities as well as places the firm within a process that engenders future opportunities that are as yet unknown. In a sense, the acquisition serves as both a resource and an opportunity where the availability of the target firm defines the opportunities and the opportunities define the acquisition as a resource as well.

[9] Moreover, the burden of establishing legitimacy is greater since EMNEs happen to be late internationalizers in a context where the established MNE are already present and even entrenched.
[10] Other advantages include more general ones such as that of multinationality itself.
[11] For instance, if the sole advantage of an Indian firm is low cost, this can easily be undermined by entrants from Vietnam (for instance).

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THE PHENOMENON: EMNE INTERNATIONALIZATION THROUGH ACQUISITIONS IN ADVANCED ECONOMIES

Why acquisitions?

To understand why acquisitions in advanced countries are valuable for many EMNEs, we must tackle the question of the worth of an acquisition compared to the price paid for it (Barney, 1988; Rumelt, 1987). We argue in this section that acquisitions by EMNEs in advanced economies both help them overcome the LOE as well as make entrepreneurial rents possible for these firms by enabling access to valuable opportunities that build upon their asymmetries and transform their capabilities.

With regard to valuation, consider first and foremost that the acquisition's value lies in overcoming the LOE. Acquisition of an advanced economy firm allows the EMNE the possibility to take the 'less than world class' image resulting from the LOE (recall the 'made in Turkey' remark mentioned earlier) to 'world class' in one quick step. Similarly, Tata's declared intent in acquiring the commercial vehicle division of Daewoo was to prepare themselves to develop world class capabilities to make trucks for the rest of the world. Second, there is also the aspect of reverse internationalization, where the primary value of the foreign acquisition is for the EMNE firm to become more competitive at home post-liberalization against both foreign and other domestic competitors (Seth, Song, and Pettit, 2002). In this regard, Keil, McGrath, and Tukiainen's (2009) identification of entrepreneurial ventures functioning in large part as a conduit for ultimately boosting the capabilities of a firm's other businesses and their consequent conclusion that such indirect benefits are largely independent of the commercial success of the venture resonates equally in the context of acquisitions by EMNEs. Third, as their domestic economies liberalize, EMNEs recognize the importance and urgency of diversifying geographically, both for learning to compete in global (including home) markets as well as escaping institutional constraints at home. Since due to their situational asymmetries DMNEs do not face the above challenges and needs to the same extent, it is but natural that they would value such acquisitions differently.[12]

From the viewpoint of acquisition as strategic entrepreneurship, acquisition goes one step beyond just augmenting resources or even learning (Vermeulen and Barkema, 2001) to incorporate discovery, where ''the carrying out of combinations' is more usefully viewed as a discovery process than as some sequence of discrete activities of joining known resources to produce some known outcome(s)' (Moran and Ghoshal, 1999: 393). In this regard, Zander and Zander's (2010) representation of acquisitions as a 'grey box' is highly relevant to our argument. In the case of acquisitions, much information and contingencies arise through interaction between the two parties. Zander and Zander (2010) argue that, in spite of whatever due diligence a firm makes, it is impossible to know everything about the target beforehand. Some things are simply not knowable *ex ante*, but only become uncovered gradually through the ongoing process of mutual and reciprocal interaction.

Following this line of argument, EMNEs acquire not only because of what they know they can access or learn, but also because of the opportunity to create advantage and potential contribution to the capability building and transformation process *even beyond what can be known or predicted ex ante*. What is frequently considered as aggressive investor behavior and does not make sense to the stock market is a kind of entrepreneurial opportunity seeking,[13] where longer-term gains under a long-term vision can outweigh resource commitment and associated costs in the short run (Dobbs and Gupta, 2009; Duysters *et al*. 2009).

One aspect that is crucial to the discovery process is access to information through networks. EMNEs just entering an advanced economy are excluded from the informal networks—and the associated information advantages derived from them—that would be available to more established competitors, both local and foreign (Barnard, 2010; Johanson and Vahlne, 2009). From a business network perspective, firms' operations overseas do not operate in some void, but are linked to other organizations within an industrial context (Forsgren, 1989). As a bridge to business networks, both local and international,

[12] Of course, there can be contested bids between two EMNEs. However, with a few exceptions, e.g., Corus Steel, contested bids between two EMNEs are not so common, and often they have been the lone eventual bidder.

[13] Obviously such acquisitions can well fail. However, if the intent is learning and opportunity seeking rather than just access to a technology or brand, then the meaning of failure is not so clear-cut.

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acquisitions lower uncertainty by providing access to the necessary information stock. They can be understood as a strategic move to manage business relationships in a network context and, in contrast to a comparative efficiency argument, offer an alternative not just to wholly owned subsidiaries, but also to other governance forms for the purpose of bridging and managing network relations (Forsgren, 1989). In general, acquisitions offer one option[14] to overcome the difficulties faced by EMNEs and can be an attractive alternative, more so since the acquired firm is accompanied by the knowledge and networks of its employees as well as that of its customer and supplier base.

Moving on to possible disadvantages of acquisitions, two main issues have been identified in the international business literature (Nachum, 2003). First, with the accepted argument emphasizing the importance of a firm-specific advantage to compensate for the LOF, acquisitions are considered less suitable should the investor want to install its own management practices to maintain control over its source of advantage. Acquisition impedes transfer of advantage since the target has its own preexisting identity as well as a distinct and established set of routines. The situation is exacerbated to the extent that an acquired affiliate tends to remain somewhat more autonomous than would a newly established subsidiary, thus weakening the pressure to conform to the parent. The second downside of acquisition, as has been well documented, has to do with integration problems and costs as well as difficulty in realizing synergies. We take up each of these disadvantages in turn and argue that they are not so relevant or critical in the case of the EMNE, due to their particular asymmetries.

With respect to the first, i.e., weak transferability of advantage, the implicit assumption is that the acquiring firm would want to transfer its advantage. However, this assumption is questionable in and of itself. In the case where a firm does not possess a significant monopolistic and rent-yielding resource in the first place, lack of transferability is not so critical an issue since there is little (or little need) to transfer and the more urgent concern is how to overcome the LOE and to learn and upgrade firm capabilities. The focus initially is more on extracting advantage *from* the target rather than transferring advantage *to* the target. For instance, when asked about its recent acquisition of Volvo, the CEO of Geely Motors of China said ‘I think Volvo is a tiger. To liberate the tiger, we need to think how to uncover the value in Volvo’ (Dolan and Shirouzu, 2010).

With respect to the second, i.e., the cost and difficulty of integration, the implicit assumption is that a firm would want to, or that it is better to, integrate the target into its own operations. This assumption is also questionable in the case of EMNE acquisitions of developed economy firms. A recent study found that, unlike firms from advanced economies, more than 50 percent of Asian acquirers do not integrate their target to any significant extent (Cogman and Tan, 2010). For established firms that already possess an existing advantage and an international presence, an acquisition would likely be more from an efficiency or power perspective (i.e., to attain economies of scale, rationalize and restructure operations, eliminate a potential competitor, etc.) (Kale, Singh, and Raman, 2009). Such acquisitions are often accompanied by closure of operations and reduction of head count. In contrast, because of their starting point, EMNEs are already in a low-cost position. Moreover, expanding from ‘lower knowledge class’ countries into ‘higher knowledge class’ ones, they usually tend to have a more humble approach to learning, and thus, are more open to mutual knowledge flows. In such cases, the acquiring firm may even end up supporting and investing further in the acquired firm and, rather than a diminished role, the outcome could well be a stronger charter for the acquired firm, one which is not limited just to its earlier operations. In principle, by combining the knowledge and capabilities of the target with lower-cost operations and capabilities of the acquirer, the combination could well end up being mutually beneficial, resulting in both the target and the acquirer becoming more competitive (Knoerich, 2010).[15]

[14] Of course, there are other means such as joint ventures, licensing, etc. This not being a comparative governance mode paper, we choose not to digress into a detailed discussion of alternative modes. Suffice it to say that, though other means are a possibility, acquisitions are particularly suitable to the specific challenges that the EMNE firm needs to confront.

[15] It is not necessarily the case that the acquired DMNEs always have superior capabilities. Even when they do however, they are often struggling in their home and overseas markets and recognize that strategically their future would be more promising as part of another (suitable) firm (Graebner and Eisenhardt, 2004; Knoerich, 2010). Given their difficult situation, the promise offered by EMNEs, combined with strong cash flows from booming domestic markets, become particularly attractive from the seller’s perspective.

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Given the asymmetric situation, the typical argument from a DMNE perspective would be to structurally integrate quickly and with a 'bold stroke' so as to control for lack of cooperation as well as preempt subsequent coordination problems. However, from an EMNE perspective, such an approach would be counterproductive (Kale *et al*., 2009) since, were the EMNE firm to 'take over,' this risks destroying the very things they seek through the acquisition, i.e., overcoming LOE and upgrading capabilities. For instance, loss of the target's identity could adversely impact existing affiliations with stakeholders and credibility with the local clientele. Moreover, it would undermine the target's capabilities by disrupting its routines, and risks demotivating and losing key employees whose knowledge is important to retain. Additionally, there may simply be less need to integrate. For the EMNE, a developed economy target is more likely to be in adjacent and complementary segments (i.e., high and low end) of the market or technology, thus avoiding a competitive overlap and a consequent need to rationalize (Kale *et al*., 2009; Knoerich, 2010).

Overall then, the EMNE recognizes the need to give autonomy to preserve the benefits sought and yet seeks to balance this with the need to learn from the other, resulting in a lighter and more selective form of integration that is also less resource intensive. Given the motivation and the reduced need for integration, the acquisition is more likely to be seen as a genuine collaborative partnership rather than an imposition of hunter upon hunted (Graebner and Eisenhardt, 2004; Kale *et al*., 2009). Such an arrangement makes the target more receptive and more positively disposed toward the acquirer. Basically, being treated as an equal in a joint endeavor with both sides benefiting makes the target more willing to make its knowledge readily available and help the EMNE learn[16] as well as learn from it.

In general then, the focus becomes more on ongoing general oversight rather than micromanaging (Cogman and Tan, 2010) and on fomenting opportunities for learning (e.g., joint teams) rather than on explicit financial outcomes. For instance, in Tata Motor's acquisition of Jaguar, the Jaguar team was pleasantly surprised by Tata's benevolent attitude, which made them more open to Tata's overtures in aligning the orientation of the two companies. This was endorsed by the CFO of Tata who, in a recent interview, stressed the importance of developing a combined vision and values in their acquisition strategy (Dobbs and Gupta, 2009). In other words, not only is integration selective, but whatever integration occurs is not forced but gradually induced in a softer way. This aligns with Bresman, Birkinshaw, and Nobel's (1999) emphasis on creating a social community post-acquisition, which emerges when a common set of values and beliefs among individuals from both acquirer and target creates the preconditions—such as a shared sense of identity and belonging with their colleagues—for successful knowledge transfer. Successful creation of such a social community opens up opportunities that may not have been initially anticipated, especially as new resource and opportunity combinations are both created and discovered through the social and interactive process, a point that resonates with Zander and Zander's (2010) metaphor of acquisition as a 'grey box.'

Asymmetries and the asset of emergingness

Our argument shifts the focus from advantage onto the asymmetries on the part of emerging multinationals due to different starting points and initial positions and paths. Such asymmetries between EMNEs and DMNEs are present because of their formative and dominant experiences in different institutional environments, which may require them to confront different kinds of problems and resolve them in different innovative ways as they seek relevant solutions.[17] Due to these asymmetries, they also differ in the opportunities created and discovered. In this section, we further identify some asymmetries and their effects, rooted in different conditions and contexts. All of these in one way or another inform their approach toward acquisition.

First, due to erstwhile regulatory restrictions on growth as well as to overcome institutional voids and market frictions, many EMNE firms previously

[16] In most cases, inward internationalization through prior past ties with DMNEs at home, along with stronger competition from DMNEs at home before moving abroad, helps build up greater capacity to absorb knowledge in their acquisitions.

[17] Quite clearly, there will exist a lot of variation both among DMNEs and EMNEs. That is, there will be some EMNEs with substantial resources and some DMNEs with less. In particular, many EMNEs belong to business groups and so have pooled resources available that may ameliorate some of the initial weaknesses. However, we would like to emphasize that these differences are a matter of degree and do not take away from our essential point that there are certain asymmetries across these two types or categories due to their origins.

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tended to become organized through diversified business groups (Khanna and Palepu, 2000). Now, portfolio rationalization post-liberalization has freed up excess resources of various kinds (e.g., managerial, financial) for EMNEs that then become available to group members. In combination with their frequent market dominance in rapidly growing domestic markets, this results in group members having significant financial resources at their disposal for making acquisitions.[18] On top of this, the conglomerate as well as the state/family-owned setup allows for more patient capital, in contrast to the more unbridled shareholder capitalism that governs, and sometimes limits, DMNEs. All put together, this enables resource availability for acquisitions.

Second, compared to many DMNEs who are now internationalizing to seek lower costs, EMNEs are often already low cost and are seeking to learn and upgrade their capability base to become more competitive. Moreover, unlike many DMNEs, the 'new' EMNEs—or at least those that have prevailed at home and become visible on the global stage—do not suffer from the burden of legacy costs, financial, cultural, or organizational, to the same extent (Boston Consulting Group, 2009; Mathews, 2006). Whereas past organizational routines shaped under an older order characterized by limited global exposure were acceptable earlier, these would be a drag in a more competitive environment. Thus, the aforementioned EMNEs have often been forced to cast aside many of their prior routines to compete in the open global environment and start relatively afresh, eager and hungry to learn. In contrast, DMNE firms are not only burdened by high legacy costs, but are also more reluctant and less able to discard their routines since these were what underlay their past success, even though they may now act as a drag to change.

Third, EMNEs have a history and, thus, experience and expertise in environments characterized by institutional deficits and where regulatory structures are more fickle and less sophisticated. Often, managing and prevailing in such environments typically demands cultivating complex relationships with key institutional actors. Thus, EMNEs normally have a fairly sophisticated relational competence, which could well help them in managing acquisitions. In fact, for EMNEs, relational competence is just as, if not more, important than transactional competence. This is unlike DMNEs who, possessing technology and brands, are more adept at the latter (Luo and Rui, 2009).

Fourth, success in the relatively weak and capricious institutional environments that characterize emerging economies requires a certain degree of flexibility and resilience to deal with the vagaries of the environment and exploit opportunities as they arise. When institutions are highly unstable, firms learn what is needed to survive rather than develop the capability of competing in open competitive environments. This calls for a certain kind of entrepreneurial dynamism and more generalist, rather than focused, skills (Khanna and Palepu, 1997) to make the best use of the resources at their disposal as/when the situation demands. Consequently, due to their background, EMNE firms were compelled to be more agile and entrepreneurial in their approach, in this sense of the term, and develop attributes such as 'chutzpah,' quickness, ability to improvise, and ability to squeeze the most out of adverse circumstances (Sirkin *et al*., 2008).

Fifth, and related to the fourth, is the significance of heuristics as the basis of EMNE capabilities. Bingham *et al*. (2007) contrast heuristics and experience. Describing heuristics as 'simple rules that focus on capturing opportunities within a given process' (Bingham *et al*., 2007: 28), they argue heuristics to be, in contrast to firm experience, a hitherto under-recognized but integral aspect of firm capabilities. Unlike DMNEs, whose tacit knowledge through accumulated experience underlie their capabilities, EMNEs rely more on heuristics for two reasons. First, since capricious institutional environments place a premium on alertness, resilience, and creativity for survival, EMNEs often have to make do with what they have and combine this with a maximum of ingenuity and improvisation. This makes them more experienced in the use of heuristics. Second, since they do not have much relevant prior experience in the international arena and past experience does not apply so well in international context, they cannot rely on prior experience. As Bingham *et al*. (2007) elaborate, the use of heuristics helps focus attention on a few select and general rules, saves and frees up time, and allows for improvisation since the semi-structure allows flexibility. In this way, it helps EMNEs remain entrepreneurially alert.

This draws attention to the asymmetries between the two types of firms: EMNEs and DMNEs. With

[18] Obviously other avenues may be available, for instance accessing financial resources in external markets.

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their different history, DMNEs tend to be characterized by a more focused set of resources, more specialized routines, and greater legacy costs that, put together, induce rigidities that can cause these incumbents to devalue new or different approaches or render them too inflexible to pursue (Bartlett and Ghoshal, 2000).

Logically then, given the differences in their starting points and paths and the fact that they are seeking to catch-up with their DMNE competitors, EMNE firms tend to be more entrepreneurially driven and nimble than DMNEs attempting to preserve established positions. Consequently, they have a different competitive mind-set, one even characterized by entrepreneurship as a dynamic dominant logic (Kuratko and Audretsch, 2009) where flexibility, speed, innovation, etc., are valued far more highly than some monopolistic preexisting competitive advantage. This argument found backing in a recent study comparing Indian and American MNEs (Cappelli *et al*., 2010).[19] From such a perspective, uncertainty and disequilibrium are treated as a positive rather than a negative since they throw up novel opportunities. Such a dominant logic can serve as the basis upon which the firm is conceptualized and resources are allocated (Kuratko and Audretsch, 2009) and where, furthermore, the overriding focus of the firm is opportunity identification and discovery and the creation of new sources of value through entrepreneurial action. In a similar vein, Baker and Nelson (2005: 361) found in their study of entrepreneurship that 'bricolage appears to create a forum in which organizational improvisation, creativity, social skills, combinative capabilities, and other characteristics are called into play and are likely to have a substantial impact on outcomes.'

Conceptualized in this way, one can even identify what can be viewed as an 'asset of emergingness' that is embedded within and transpires from the emerging economy context. This asset reflects a kind of entrepreneurial agility comprising alertness, responsiveness, flexibility, heuristics, improvisation, and other related characteristics we touched upon earlier.[20] Although the traditional treatment of learning emphasizes absorptive capacity and the ability to learn, an equally important notion is that of learning *agility* and entrepreneurial capacity: the seeking of opportunities and converting them to advantage. Such an agility is critical to strategic entrepreneurship.

DISCUSSION AND CONCLUSION

Implications for competitive advantage: catching up and getting ahead

To the extent that some EMNEs are laggards, they may initially be far behind the value frontier in global competition. Tending to lack recognition overseas, they compete mainly on cost and price. The challenge becomes to move up the value curve, which is where competitive catch-up becomes relevant. The challenge for the EMNE is to somehow utilize their uniqueness, despite starting with rather ordinary resources, and become competitive—ultimately even leaders—on the global stage. Rather than seek competitive parity or advantage by trying to attain similar assets or advantages (such as technology or brand) as their more established DMNE rivals, path-dependent logic would suggest that, given unequal resources of the traditional kind and the asymmetric positions in which they find themselves, for EMNEs to compete with their advanced economy rivals on their turf and on their terms (i.e., with technology or brand) would be an unintelligent use of their resources. Besides being too daunting a task, it does not take advantage of their own unique situation and experiences emanating from their emerging economy context. At the same time, although their resources and capabilities may enable them to attain a low-cost position and be competitive at home, these would not suffice in advanced economies, both due to the LOE and because greater differentiation is needed to compete in the more demanding and higher value-added markets of the latter (Child and Rodrigues, 2005).[21]

Thus, such EMNE firms are faced with a dilemma. The resources they do have are a weak basis for sustainable competitive advantage in advanced economies. Second, even if the resources were transferable to advanced markets, they may not be as valuable in and of themselves in the host country

[19] Of course this does not mean that DMNEs cannot be entrepreneurially driven. See, for example, the work on international corporate entrepreneurship by Zahra and Garvis (2000).

[20] Although one could arguably consider this an advantage, we look upon this mainly as an ordinary asset since it does not yield rents in and of itself, but needs to be creatively combined with the resources of others and converted to an advantage.

[21] Even though competition from DMNEs at home would make EMNEs stronger, we maintain that their home-based advantages even if necessary would probably not suffice in the global arena and they need to supplement these through the resources/capabilities and advantages of others.

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context. To escape such a situation, many EMNE firms seek to gradually go upmarket and, in doing so, put themselves in a situation that *although may be resource deficient is opportunity sufficient*. It is the access to opportunities and combination with the resources of others, in our context through acquisitions, which allows them to occupy new value space. Along this line of logic, asymmetries that may initially be a source of no value or even negative value (due to the LOE) to the firm, may eventually prove to be a source of competitive advantage. This requires the transformation of the very LOE into an asset, which requires the firm to be adept at learning, in terms of both learning ability and learning agility. Arguably, the mind-set, agility, and dynamism of the kind that characterize EMNEs may be more suitable for success in today's hypercompetitive environment.

Briefly then, in acquiring DMNE firms, EMNEs are making investments in competitive catch-up through learning and capability upgrading, the driving issue being not so much to be at the leading edge as to offer a more competitive value proposition. One can anticipate, however, that catch-up could well be just a stepping stone to getting ahead. In fact, capability development through acquisition, in combination with some of the EMNE firms' own capabilities stemming from their origin in low-income and resource-poor environments (such as cost innovation and frugal engineering) begins to offer a substantively improved value proposition. Such a combination can become quite effective not only when EMNEs meet their advanced economy counterparts in third countries lower down the technological ladder, but ultimately even in the advanced economies themselves, a process of disruptive innovation that seems to already be underway.

Contributions to theory

The speed, scope, and means of internationalization by EMNEs raise questions about extant theories. The argument of the multinational enterprise's existence due to market failure in exploiting its superior resources abroad (Dunning, 1988; Rugman, 1981) rests uneasily with a situation of resource-deficient firms starting with weak advantages and going abroad to access resources (Mathews, 2006). Such a situation questions some basic tenets of extant theory, such as firm-specific advantage as a necessary precondition for firms to invest abroad, its rootedness in a leading-edge (advanced economy) market or its residing solely, or at least primarily, within the boundary of a stand-alone firm.[22]

Broadly, in assessing extant theory, we are in essence faced with three options: adhere to, modify the scope of, or take a step beyond extant theory. The first merely extends the types of advantage that qualify as an ownership advantage to include new ones (Guillen and Garcia-Canal, 2009; Ramamurti and Singh, 2009), for example political skills. The second mainly expands the scope of extant theory to incorporate newer and theoretically relevant aspects, for instance the role of institutions (Dunning and Lundan, 2008). In contrast, the third questions the very appropriateness of current theories and accordingly seeks to offer a different theoretical perspective. From this last approach, the inadequacy of extant theories may reflect not only actual changes in the behaviors of EMNEs, but also the need for theoretical advancement in general.

Needless to say, the approach chosen should depend on the focal issue of concern. With respect to the focus in this article, namely EMNE acquistions in advanced economies, we have opted for the third approach and have argued that a fresh perspective is needed—one where the more relevant and pressing question becomes one of how EMNEs can utilize and build upon what(ever) they already have to ultimately create advantage. Here, the entrepreneurially alert firm recognizes opportunities and then finds a way to realize them through a skillful combination of its own and others' resources, while also harnessing the underlying asymmetries that characterize and shape them.[23] Existing international business theories are unable to convincingly address this issue simply because, with their assumption of an existing advantage where firm resources have to start off being valuable *prior* to internationalizing, they were not designed to do so.[24]

The arguments in this article contribute to the areas of international business, acquisitions, and entrepreneurship. In contrast to extant internationalization

[22] Although extant theory has tended to be more concerned with organic internationalization than acquisitions, yet these questions remain important and relevant even in the case of the latter, especially in the light of the recent spate of EMNE acquisitions in advanced economies.

[23] In the asymmetry-based argument, there may well ultimately be an ownership advantage, but the sequencing differs from the traditional advantage-based logic.

[24] Of course, we are not suggesting that emerging multinationals do not or cannot start off with valuable resources. However, these are often simply 'missing' or inadequate. We, therefore, shift the central focus from advantage to asymmetries.

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theories that focus on advantage as a starting point, the proffered lens is distinct in that it suggests that rather than exploit an existing advantage, firms may instead be able to build competitive advantage starting from the resources and capabilities they already possess, *regardless of whether they are currently valuable or not* (Baker and Nelson, 2005; Miller, 2003). With respect to acquisitions, the argument postulates acquisitions as an act and form of entrepreneurship, an argument which has yet to be appreciated in the acquisition literature. Finally, the article contributes to the (strategic) entrepreneurship literature by widening the scope of entrepreneurial management to encompass potentially valuable asymmetries in addition to already valuable resources and by suggesting that some cross-border acquisitions can be viewed as a form of international entrepreneurship (Zahra and Garvis, 2000).

We conclude by questioning Buckley's (2002) contention that the international business agenda is running out of steam. We suggest instead that the emergence of emerging economies as well as multinational firms from emerging economies offers an opportunity to reenergize international business and global strategy research. To more fully benefit from the underlying research opportunities, we as researchers in international business and global strategy need to go beyond mere verification and extension of extant theory and instead immerse ourselves more deeply in the emerging economy context for theory building. We also need to be more 'strategic' and 'entrepreneurial' in refashioning our tool kit.

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