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Do foreign resources assist or impede internationalisation? Evidence from internationalisation of Indian multinational enterprises☆

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ABSTRACT

Cross-border acquisitions (CBAs) by emerging country multinational enterprises (EMNEs) have attracted considerable scholarly attention in recent years. However, researchers have not yet thoroughly investigated the effects of combining external resources accessed from abroad with resources owned and possessed by the EMNE when undertaking acquisitions. Against the general supposition in the Resource Based View (RBV) that all resources facilitate acquisitions, the paper shows that external foreign resources can impede, as well as assist, cross-border acquisitions. Their effect depends on the nature of interactions between external and internally owned resources within the EMNE. This study offers managerial implications for EMNEs planning to use external resources to accelerate their internationalisation.

1. Introduction

The paper analyses the effects of combining external resources with resources owned and possessed by multinationals from emerging economies (EMNEs) when undertaking cross-border acquisitions (CBAs). It is an important topic in international business for three related reasons: *first*, EMNEs are rapidly growing in the world economy. According to the latest World Investment Report, 2014 the share of emerging economies in world outward foreign direct investment (FDI) flows has now reached 39 percent. *Second*, a significant part of their FDI is utilised in undertaking CBAs (UNCTAD, 2014). *Third*, the EMNE's internationalisation using CBAs creates an interesting theoretical conundrum that is worth exploring.

Scholars have attempted to explain the accelerated internationalisation of EMNEs using novel ideas, for instance the Linkage, Leverage and Learning (LLL) framework (Mathews, 2006) which suggest that the EMNE seeks external resources from abroad to internationalise. The idea is in contrast to the implicit assumption in the general theory of internationalisation, which assumes that resources are available in the firm's home market (Dunning & Lundan, 2008). However, for some firms, and particularly for multinationals from emerging markets, such an assumption may be difficult to support. Emerging markets may lack the sorts of resources – technological, managerial, and organisational – that underpin the success of established multinational enterprises (MNEs) (Deng, 2009; Kumar, 1988; Lecraw, 1993; Makino, Lau, & Yeh, 2002; Ramamurti, 2009). Furthermore, as latecomers to world markets, EMNEs may find that the most attractive resources are possessed by firms located outside their home country. Thus, EMNEs access external resources from abroad and exploit them together with their own resources to accelerate its internationalisation and overcome barriers of internationalisation, such as psychic distance (Johanson & Vahlne, 1977) and the liabilities of both foreignness (Zaheer, 1995), and origin (Pant & Ramachandran, 2012).

The idea of amassing and exploiting external resources along with own resources relates to literature on combinative capabilties which suggests that the firm accessing external resources can fruitfully combine them with its own resources to build competitive advantages (Kogut & Zander, 1992). However, we argue that the current understanding seems to be impaired because, in the context of EMNEs, we do not know how far the EMNE can

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successfully combine external resources with its own resources. In other words, how do external foreign resources impact on home-based resources?

In this paper, we examine this important question utilising a data set based on acquisitions by a sample of Indian firms. We define internal resources as domestically sourced resources owned and possessed by the EMNE, while resources sourced by the EMNE from abroad are referred to as external resources. Although similar resources can be accessed by the EMNE from the home country, as indicated above, it is unlikely that domestically available resources, alone, will be sufficient in building competitive advantages that can enable accelerated internationalisation of the EMNE. The extant literature often suggests that given the operating conditions in emerging economies (Wang, Clegg, & Kafouros, 2009) the EMNE may lack the typical resources required to succeed in foreign markets (Child & Rodrigues, 2005; Isobe, Makino, & Montgomery, 2000; Mathews, 2006). For instance, emerging economies are often characterised by weak human and entrepreneurial resources (Khanna & Palepu, 2000; Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, 2003), weak technological and managerial resources (Bartlett & Ghoshal, 2000; Dunning, Kim, & Park, 2008), and underdeveloped marketing resources (Duysters, Jacob, Lemmens, & Jintian, 2009). Therefore, the EMNE seeks to utilise external resources from abroad to compensate for the competitive advantages it typically lacks (Dierickx & Cool, 1989; Mathews, 2006).

We use the resource based view (RBV) (Barney, 1991; Lavie, 2006; Wernerfelt, 1984) to explore the effect of external resources on the EMNE's own resources in making acquisitions. Use of the RBV is apposite because cross-border acquisitions help the EMNE to accelerate its internationalisation and catch-up with peers, but requires the acquiring firm to possess the right kind of resources (Anand & Delios, 2002). Studies using the resource-based theories (Tseng, Tansuhaj, Hallagan, & Mccullough, 2007) conclude that the availability of both internal and external resources is a key factor for the EMNE's internationalisation (Lavie, 2006; Mathews, 2006). Extending this stream of literature, we argue that not all external resources facilitate the EMNE in undertaking cross-border acquisitions. The effect depends upon the interaction of external resources with internal resources possessed by the EMNE.

We show that external foreign resources not only assist in making acquisitions but can also impede acquisitions. More specifically, we find that external technological resources complement the domestic resources of Indian MNEs. Our argument is that external technological resources are important given that EMNEs are (generally) technologically poorer in comparison to their counterparts from advanced economies. Access to advanced foreign technology augments the EMNE's technological know-how, enabling it to undertake CBAs to exploit rapidly economic rent arising from the use of advanced foreign technology before it becomes obsolete. This is consistent with research that suggests that firms that enjoy accelerated internationalisation are those most able to utilise intangible resources, such as technology and network relations (Etemad, 2005). Access to foreign technology improves the internal technological capabilities of the firm and builds absorptive capacity that allows the accretion of increasingly sophisticated external technological resources (Kogut & Zander, 1992).

On the other hand, we suggest that financial resources drawn from abroad may impede the internationalisation process where, for example, investors exercise a preference for expansion in what are often large and rapidly developing domestic markets, as opposed to more risky overseas ventures. Our hypotheses are tested using a sample of 315 Indian MNEs that undertook foreign acquisitions in the period 2000–2007. The dataset covers 623 foreign acquisitions in 65 host countries with a combined value of almost US$50 billion.

Our findings broaden the boundary conditions of the RBV by combining external and internal resources. They suggest that this interaction may lead to optimum combinations of resources across technology and finance. This aspect is particularly important for EMNEs that lack technological resources, but seek accelerated internationalisation through CBAs. We leave open the possibility that the moderating effects can be negative as well as positive. We contribute to the stream of literature on the resource-based antecedents of cross-border acquisition by EMNEs. We challenge the fundamental assumption, embedded within the RBV (Lavie, 2006) and the LLL framework (Mathews, 2006), that all resources, including external resources, are beneficial for the firm. The existing literature on the value of external resources is overly optimistic, as it has not fully considered the effect of external resources on the competitive strength of the EMNE. Reconciling our findings with existing studies, we present a general model for analysing the effects of external resources on internal resources during the process of CBAs, and suggest that EMNE managers need to exercise caution when accessing external resources.

The paper is organised into five substantive sections. The following section provides a brief review of the relevant literature and hypotheses development. This is followed by a discussion of the research methods used in the study. The results and a discussion of findings are provided in section four. The final section offers concluding comments.

2. Literature review and hypotheses development

Traditionally, the RBV considers the firm as a 'bundle of resources' (Penrose, 1959/2005). It suggests that internal resources, i.e. resources owned or at least fully controlled by the firm, determine the firm's competitive advantages (Barney, 1991; Grant, 1991, 1996; Rubin, 1973; Wernerfelt, 1984). The RBV proposes that these resources are immobile across firms. This results in heterogeneity among firms, with different configurations of competitive advantages within an industry (Barney, 1991; Peteraf, 1993). The firm devises its strategies depending on the quantity and quality of resources possessed, with the aim of optimum utilisation of its proprietary assets (Barney, 1996; Oliver, 1997; Tallman & Li, 1996). Thus, the main idea underlying the RBV is exploitation of internal resources which ultimately determine the firm's strategic choices (Madhok, 1997), performance (Barney, 1986), degree of multinationality (Tseng et al., 2007) and the mode of entry into foreign markets (Isobe et al., 2000; Madhok, 1997).

Scholars (e.g. Anand & Delios, 2002; Tseng et al., 2007) agree that the significance of resources becomes even more important in the case of cross-border acquisitions because acquisitions usually demand a higher degree of resource commitment by the firm. The resources are needed right from the pre acquisition phase that requires target identification and valuation, until the post acquisition phase that deals with the integration of the acquired firm. The need for more resources arises because the cost of acquiring an existing firm is usually more than that of setting up a new venture and the acquiring firm may use the acquisition to diversify into a new business.

Firms, however, face constraints both in terms of the quantity and type of resources required in making CBAs (Tseng et al., 2007). The resource constraint problem is more serious in relation to EMNEs. Prior research suggests that firms originating from emerging economies may lack the resources that underpin success in foreign markets (e.g. Dunning et al., 2008; Gammeltoft, Barnard, & Madhok, 2010; Isobe et al., 2000; Miller, Thomas, Eden, & Hitt, 2009; Rui & Yip, 2008). Facing serious resource limitations, the EMNE needs external resources that not only compensate for existing resource deficiencies, but also accelerate its internationalisation (Dierickx & Cool, 1989; Luo & Rui, 2009; Mathews, 2006).