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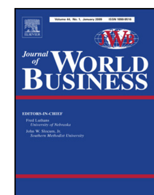

Acquisitions by emerging market multinationals: Implications for firm performance

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ABSTRACT

This study develops and tests a framework about the resource- and context-specificity of prior experience in acquisitions. Although extant research has explained why multinational companies from emerging countries (EMNCs) acquire companies in developed countries, we have an incomplete and inconsistent understanding of the consequences of such acquisitions for the performance of target firms. First, we show that despite the concerns raised by politicians and the general public in developed countries, the acquisitions made by EMNCs often enhance the performance of target firms. Second, we examine whether the role of EMNCs' idiosyncratic resources (such as access to new markets and cheap production facilities) and investment experience in enhancing the performance of target firms differs across acquisition contexts. We demonstrate that not all types of resources and investment experience are equally beneficial and, in fact, some types of experience even have a negative effect on the performance of target firms. By contrast, other types of experience that EMNCs accumulate from prior investment enhance the performance of target firms by facilitating resource redeployment and the exploitation of complementarities.

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1. Introduction

Although globalization was for several decades driven by firms from developed nations, multinational companies from emerging countries (EMNCs) are increasingly investing in developed countries by acquiring firms. This entry mode is strategically important because it gives EMNCs quick access to new markets, resources and capabilities. The rise of outward foreign direct investment (OFDI) from emerging economies is a phenomenon that has important theoretical and empirical implications, and has therefore recently attracted considerable scholarly attention. However, extant research on the subject has largely focused on either the characteristics and determinants of OFDI (Buckley et al., 2007; Gammeltoft, 2008; Kalotay, 2008; Li, 2007; Mathews, 2006; Rugman, 2008; Sauvant, 2005) or examined whether established theory can explain the recent internationalization of EMNCs. Hence, although prior studies have offered valuable insights into the determinants of OFDI from emerging economies, little research has analyzed its consequences for performance, leaving an interesting and important question less well understood: "How do the acquisitions of EMNCs influence the performance of target firms in developed countries?". The incomplete understanding of the performance consequences of OFDI not only limits theorizing on international business, but also influences EMNCs' acquisition strategy and the behavior of host-country governments. Indeed, the effectiveness of EMNCs' internationalization depends on how well they understand the conditions shaping the success of their acquisitions in developed countries. Equally, given that the general public and politicians in developed countries only rarely welcome EMNCs' acquisitions (Goldstein, 2007), host-country governments need to identify and attract the type of investors that have the potential to enhance the performance of domestic firms.

To address the above question, we examine how acquisitions from Brazil, Russia, India and China (BRIC) influence the performance of target firms in developed countries. Our analysis extends prior research in two important ways. First, established international business theory has largely been created with developed countries in mind. It thus relies on predictions and assumptions that are not always valid in situations where an EMNC acquires a firm in a developed country (Kuada, 2002). For example, whereas previous studies point to the importance of intangible resources in affecting the performance of target firms acquired by developed market firms (Delios & Beamish, 2001), prior research has shown that EMNCs only rarely possess strong intangible resources and may invest abroad precisely in order to access intangible assets (Ramamurti, 2009). To increase understanding of these differences, we develop and test a conceptual framework that explains the

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mechanisms influencing the post-acquisition performance of developed country firms. Our contribution lies in demonstrating how variations in the performance of target firms is explained by the idiosyncratic resources possessed by the acquiring EMNC. More specifically, our analysis contributes to theory on the role of external resources (Lavie, 2006; Rui & Yip, 2008) by explaining how such acquisitions enable target firms to become part of a wider network, exploit complementarities and benefit from the resources owned by other parts of the organization (Capron, Dussauge, & Mitchell, 1998; Capron, 1999; Uhlenbruck, 2004). The findings of the study are surprising and differ significantly from studies that focused on acquisitions made by developed country MNCs (Conyon, Girma, Thompson, & Wright, 2002; Feys & Manigart, 2010, Chap. I; Kyoji, Ito, & Kwon, 2005; Piscitello & Rabbiosi, 2005) or the performance of the acquiring EMNC (Contractor, Kumar, & Kundu, 2007; Garg & Delios, 2007; Gaur & Kumar, 2009).

Our second contribution concerns the role of experience accumulated by EMNCs through previous acquisitions and greenfield investment in developed and emerging markets. Inherent contextual properties map onto distinct learning processes and experiences (Muehlfeld, Rao Sahib, & van Witteloostuijn, 2012). Building on the notion of context-specific applicability, we examine whether the experience that EMNCs gain from various investment contexts influences subsequent outcomes in either different-context or similar-context acquisitions. This involves the analysis of whether the usefulness of experiential learning patterns associated with prior investments differs across contexts depending on the type of market entry (greenfield or acquisition) and the investment location (emerging or developed countries). Although prior research has acknowledged that experience influences the success of acquisitions (Barkema & Vermeulen, 1998; Muehlfeld et al., 2012), EMNCs originate from countries that differ significantly from developed countries in their political, economic, cultural and institutional environments (Goldstein, 2007). As such, their experience differs from that of developed country MNEs. We extend the literature on OFDI by demonstrating that not all *types* of experience are equally beneficial. Rather, we find that the performance-enhancing effects of investment experience depend on the context in which experience was gained. This differs from the general tenet that firms become more proficient at managing new investments with each additional investment experience.

The implication for theory and practice is that the direct and moderating role of EMNCs' experience is not equally effective for enhancing the performance of target firms but depends on the EMNC's investment pattern. In fact, we find that some types of experience may even have negative consequences for the performance of target firms. Conversely, other types of EMNCs' experience (or a combination of different types of experience) positively moderate the relationship between their resources and the performance of target firms. Overall, the findings suggest that the idiosyncratic characteristics, experience and resources of EMNCs lead to significant differences in the potential synergies and complementarities that EMNCs may exploit when acquiring new firms. They also suggest that different types and locations of investment are associated with a given set of capabilities that is not transferable to other acquisition deals. These idiosyncrasies change the role that firm experience plays in managing resources and new acquisitions and in improving the performance of target firms.

2. Theoretical foundation and hypotheses development

2.1. The post-acquisition role of EMNCs' intangible and tangible resources

After an acquisition, the firms involved may transfer and use each other's resources, create new opportunities and benefit from potential synergies and complementarities (Lavie, 2006). Nevertheless, firm resources can be used more efficiently or less efficiently. The nature and performance effects of these synergies depend on the type of resources possessed by the target and acquiring firms. Although developed country firms typically possess strong intangible resources such as technology, know-how and brand names (Delios & Beamish, 2001), EMNCs lag behind in this respect (Ramamurti, 2009). Indeed, it has long been established in the international business literature that there is an element of specialization in the global landscape because developed country firms typically have a good grasp of technology (Lane & Beamish, 1990). This view is also supported by a large volume of more recent studies indicating that EMNCs often engage in cross border acquisitions to address this comparative disadvantage, source new intangible resources and knowledge, and become more competitive in the global arena (Athreye & Kapur, 2009; Deng, 2009; Guillén & García-Canal, 2009; Luo & Tung, 2007; Mathews, 2006; Rui & Yip, 2008). Hence, EMNCs usually absorb, rather than transfer, technical and marketing knowledge from target firms located in developed countries. Consequently, EMNCs' intangible assets are likely to have a less significant effect on the performance of developed-country target firms. For these reasons, the theoretical prediction indicating that the performance of target firms is affected by the intangible assets of the acquiring company may not hold when the acquiring firm is an EMNC (Delios & Beamish, 2001).

Nevertheless, EMNCs often possess strong tangible resources because of various home-country-specific advantages including government support, access to cheap capital and oligopolistic market position (Kumar, 2007; Liu, Buck, & Shu, 2005; Morck, Yeung, & Zhao, 2008; Rui & Yip, 2008). The availability of such resources increases the likelihood of benefiting from complementarities between the tangible assets of EMNCs and the knowledge-, marketing- and technology-intensive resources of target firms in developed countries. We propose two mechanisms – *resource redeployment* and *asset divestiture* – through which these benefits occur (Capron et al., 1998; Capron, 1999). Resource redeployment refers to the extent to which the target firm may use the resources of the acquiring EMNC; and may involve the use or transfer of physical assets (e.g. production facilities). Asset divestiture refers to the extent to which the target firm improves its performance by disposing of some of its physical assets or by cutting back its personnel (Capron, 1999). Resource-based and cost-efficiency theories emphasize that resource redeployment and asset divestiture may enhance the performance of target firms by leading not only to revenue-enhancing improvements but also to cost-based synergies.

EMNCs usually have access and can rely on cheap intermediate materials, raw resources and production facilities in their home countries (Buckley et al., 2007; Goldstein, 2007). The low cost and abundance of these tangible resources derives not only from macro-economic conditions (e.g. cheap wages, large populations, extensive primary resources), but also from the possibility to access cheap capital from EMNCs. Family firms, prevalent in many emerging markets, including India, can count on cheap capital from family members. State owned firms (and state-associated firms) may have capital allocated to them at below market rates – a key example is China. Conglomerate firms, again prevalent in many emerging economies, may operate a biased internal capital market favoring FDI (Buckley et al., 2007). For all these reasons, cheap capital may represent a formidable support to the procurement of cheap tangible resource for many EMNCs, thus providing them with a strong competitive advantage not only in labor-intensive but also in capital-intensive activities.

Hence, target firms in developed countries can become more cost effective by accessing the tangible resources of EMNCs through resource redeployment (i.e. transfer or utilization of such resources). Furthermore, access to EMNCs' tangible resources

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