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Cross-border acquisitions by Indian multinationals: Asset exploitation or asset augmentation?

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ABSTRACT

This paper examines cross-border acquisitions by Indian multinationals and places them in the context of Emerging Country Multinationals. It tests hypotheses based on internalisation theory and the resource based view to ask if these firms are asset exploiting or asset augmenting in their takeover behaviour. Internal financial and technological resources are found to be important explanatory variables, as is asset seeking; of brands, technology and market access. The home environment in India allows firms to amass profits, to manage in a culturally diverse setting and to develop asset bundling skills. All these factors are significant in determining cross-border acquisitions.

1. Introduction

Cross-border acquisitions (CBAs) undertaken by emerging country multinational enterprises (EMNEs) have increased significantly over time (UNCTAD, 2011). Though the phenomenon of EMNE's internationalisation using CBAs has been investigated (Luo, 2010), the lack of theoretical and empirical attention to the determinants of CBAs by EMNEs is particularly surprising (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Tseng, Tansuhaj, Hallagan, & McCullough, 2007).

Traditionally, internationalisation of the firm is explained by the asset-exploitation perspective (Caves, 1971; Hymer, 1976) which along with internalisation theory (Buckley & Casson, 1976) became the foundation for the popular 'eclectic framework' of internationalisation (Dunning, 1977, 1981). According to the framework, the firm successfully undertakes foreign direct investment (FDI) by exploiting its ownership advantages and out-competing local firms in foreign markets. Thus in this framework, possession of ownership advantages is a necessary pre-condition in the absence of which the firm is not able to overcome the liabilities of foreignness (Zaheer, 1995).

Increasing internationalisation of EMNEs through acquisitions has significant implications for theory building (Peng, 2012). It presents an excellent opportunity to revisit theories, provide new empirical evidence, and find new theoretical explanations (Ramamurti, 2012). For instance, Hennart (2012) suggests that home country specific advantages push EMNE's to undertake acquisitions of foreign firms for asset augmentation purposes. In this respect, Hoskisson, Wright, Filatotchev, and Peng (2013) argue that new multinationals from the mid-range emerging economies, such as India, present an interesting case study because they break the dichotomy between the internationalisation behaviour of MNEs originating from emerging and developed economies. Market institutions in emerging economies provide an important contextualised perspective that explains the competitive advantages that EMNEs realise at home, and their need to attain complementary assets through internationalisation.

Hennart (2012) argues that Dunning's OLI framework (1977, 1981, 1988) does not explain the pattern of EMNEs because it does not account for the 'bundling' of assets that an MNE requires to internationalise. Hennart's view is that the approach built within the OLI framework overlooks the skills that all MNEs need to

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combine the locational attributes ("Country specific advantages" (CSAs)) with their own complementary assets ("Firm specific advantages" (FSAs)) (see also, Hennart, 2009). Moreover, the OLI approach does not explain why some emerging country firms manage to convert their home CSAs into FSAs while others do not. The evolving literature on the internationalisation of EMNEs suggests that firms originating from emerging economies aim to augment home country strategic assets with foreign ones (Child & Rodrigues, 2005; Mathews, 2002b, 2006; Rui & Yip, 2008; Santangelo, 2009). This view, known as the asset-augmentation perspective, argues that EMNEs lack the competitive advantages required to out-compete local firms in foreign markets. EMNEs internationalise in order to build competitive advantages by augmenting strategic assets and resources. Thus asset-seeking internationalisation is a 'spring-board' for growth and further internationalisation (Luo & Tung, 2007).

In this respect, the extant literature does not provide sufficient understanding of how the EMNE internationalises to augment its assets if it does not have sufficient pre-existing competitive advantages. Thus, the literature presents a 'chicken or egg' puzzle on the subject of EMNE's internationalisation. The contribution of this paper lies in addressing this puzzle by examining the foreign acquisitions undertaken by Indian MNEs. These firms represent a good case study given: (1) Indian MNEs have made some prominent acquisitions in recent years; (2) by making foreign acquisitions many Indian MNEs such as Bharti Airtel, Tata Steels, and Suzlon have become industry leaders (Airtel, 2012; MIT, 2012; Suzlon, 2012; UNCTAD, 2007); (3) India stands out in comparison to other emerging economies in terms of the number of foreign acquisitions undertaken by Indian MNEs (KPMG, 2012) and (4) the majority of Indian outward FDI occurs through foreign acquisitions (Athukorala, 2009).

The development of Indian firms into domestic giants and then EMNEs is first and foremost a product of home country factors and, in particular, Indian government policy. Many Indian firms grew domestically and diversified because of a protected home market (Khanna & Palepu, 2010; Munjal, Buckley, Enderwick, & Forsans, 2013). They were unable to import technology (Desai, 1972) and so the 'catch-up' process involved the acquisition of foreign technology, largely through the purchase of foreign firms (Duysters, Jacob, Lemmens, & Jintian, 2009; Narayanan & Bhat, 2010). We argue that these acquisitions were financed by the accumulation of funds arising from super-normal profits in the large, protected Indian economy. Furthermore, diversities within India (on almost every dimension – language, religion, culture) enabled domestic Indian firms to build skills that aided internationalisation, such as managing a diverse workforce (Pereira & Malik, 2015). Marketing strategies too, had to provide for a fragmented consumer market. There are, therefore, grounds for believing that, even prior to internationalisation, Indian firms had internalised the skills, attributes and resources necessary to successfully undertake foreign acquisitions. This accords with Hennart's (2012) analysis of the management skills needed to 'bundle' assets and to convert latent country specific advantages into firm specific advantages. One further factor of note is that many Indian firms are part of large, diversified business groups and this too, may impact their pattern of internationalisation.

We also contribute to literature, especially the 'Goldilocks' debate (Cuervo-Cazurra, 2012), by integrating the asset exploitation and asset augmentation views, suggesting that no new theory is required for explaining the internationalisation of EMNEs. EMNEs are growing rapidly and some of these firms have emerged as world leaders in their industries. The study of EMNEs has generated significant academic interest and generated the 'Goldilocks debate' regarding the need to analyse their distinctiveness in relation to theory. The debate has three perspectives: (1) EMNEs behave differently and there is a need to have new theories and models to analyse their behaviour; (2) EMNEs are not a new species and existing theories can adequately explain their behaviour and (3) the analysis of EMNEs does not require new theories but some modification or extension to existing theories and models (Cuervo-Cazurra, 2012). EMNEs seek to compensate for their weaknesses by using network-based resources emerging from institutional and industrial characteristics of their home countries (Cuervo-Cazurra & Genc, 2008; Elango & Pattnaik, 2007). However, these firms do possess firm specific ownership advantages and 'bundling' skills (Hennart, 2012) shaped by home country conditions.

2. Literature review

2.1. Internationalisation by asset exploitation

In order to resolve the puzzle, we draw on the internalisation/ market imperfection perspective (Buckley & Casson, 1976; Caves, 1971; Hymer, 1976) and the resource based view (Barney, 1991; Wernerfelt, 1984). According to the market imperfection perspective, structural market imperfections lead to monopolistic powers of the MNE. These monopolistic powers or advantages take various forms including proprietary technology, ownership or control of factors of production, economies of scale, privileged access to inputs, control of distribution networks and the ability to achieve product differentiation (Kalfadellis & Gray, 2002; Sullivan, 1994).

In imperfect markets, firms are "unequal in their ability to operate in a particular industry. A firm with advantages over other firms in the production of a particular product may find it profitable to undertake the production of this product in a foreign country as well." (Hymer, 1960, p. 25–26, 1976). Thus, the firm internationalises by exploiting its firm specific advantage (Dunning, 1977, 1981). The role of FSAs is to provide competitive advantage to the firm, sufficient enough to compete successfully with local firms in a foreign market and to overcome the liabilities of foreignness (Zaheer, 1995). However, it is important to note that FSAs are embedded within resources, tied 'semi-permanently' to the firm (Caves, 1980).

According to Wernerfelt (1984), resources can be tangible or intangible and include everything that could be thought of as a strength of a given firm and which allow the MNE to appropriate rent by undertaking FDI (Hymer, 1960, 1976). However, the extant literature suggests that firms originating from emerging economies may typically lack the FSAs required to succeed in foreign markets (Child & Rodrigues, 2005; Gammeltoft, Barnard, & Madhok, 2010; Isobe, Makino, & Montgomery, 2000; Mathews, 2006; Miller, Thomas, Eden, & Hitt, 2009). This deficiency is attributed to the country of origin effect (Wang, Clegg, & Kafouros, 2009) because emerging economies are typically characterised by weak human and entrepreneurial resources (Khanna & Palepu, 2000; Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, 2003), inferior technological resources (Dunning, Kim, & Park, 2008), and less effective marketing resources (Duysters et al., 2009). Therefore, the EMNE seeks to augment its strategic assets by acquiring the compensating competitive advantages it generally lacks (Dierickx & Cool, 1989; Mathews, 2006). It sees internationalisation as a "springboard" in its growth (Luo & Tung, 2007, p. 481).

Bartlett and Ghoshal (2000, p. 134) observed that multinational firms in emerging economies not only lack the usual resources possessed by their "first world" multinational competitors, but are also distinguished by their "strategic, organisational and management diversity". EMNEs usually operate in low value adding activities because of weak technological and managerial capabilities and generally internationalise by exploiting home country