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The role of experiential and non-experiential knowledge in cross-border acquisitions: The case of Indian multinational enterprises

Peter J. Buckley^a, Surender Munjal^{a,d,*}, Peter Enderwick^{a,b}, Nicolas Forsans^c

^a Centre for International Business, Leeds University Business School, University of Leeds, Leeds, LS2 9JT, United Kingdom

^b Auckland University of Technology, Auckland, New Zealand

^c University of Exeter Business School, Exeter, EX4 4PU, United Kingdom

^d Director, James E. Lynch India and South Asia Business Centre, Leeds University Business School, University of Leeds, Leeds, LS2 9JT, United Kingdom

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ABSTRACT

This paper investigates the antecedents of the internationalization of emerging economy multinational enterprises (EMNEs) through cross-border acquisitions. Using a panel data set of 1138 cross-border acquisitions made by 515 Indian multinational enterprises (MNEs) during 2000–2013, it examines interactions of in-house resources with experiential and non-experiential knowledge to explore how EMNEs manage and exploit their knowledge base when internationalizing. The results show that Indian multinational enterprises have ‘interface competence’. They combine in-house resources with experiential market and externally sourced technological knowledge for undertaking cross-border acquisitions. The Uppsala model provides insights in analyzing the role of market knowledge and the Global Factory model helps in analyzing the role of technology in cross-border acquisitions by EMNEs.

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1. Introduction

Cross-border acquisitions by emerging economies multinational enterprises (EMNEs) have attracted significant academic attention. The World Investment Report 2014 suggests that acquisitions of foreign firms by multinational enterprises from emerging economies have contributed significantly towards their share of global outward foreign direct investment (FDI) flows which reached 39% in 2013 (UNCTAD, 2014). Examining EMNE acquisition of foreign firms, a growing body of literature suggests that EMNEs prefer to undertake FDI through acquisitions because it aids them in catching up with MNEs from industrially advanced economies (Awate, Larsen, & Mudambi, 2012; Bonaglia, Goldstein, & Mathews, 2007; Duysters, Jacob, Lemmens, & Jintian, 2009; Mathews & Zander, 2007; Mathews, 2002, 2006; Young, Huang, & McDermott, 1996), and helps to augment strategic assets needed to create value and build competitive advantages for future growth (Deng, 2009; Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2009; Luo & Tung, 2007; Sun, Peng, Ren, & Yan, 2012).

This evolving body of literature seems to ignore the fact that cross border acquisition involves inherent risks and that the EMNEs need to have significant knowledge to manage the issues involved in undertaking acquisitions. Thus, the literature offers plausible explanations for the motivations and strategies behind acquisitions but there is a limited understanding of the antecedents for acquisitions undertaken by EMNEs. We contribute to the scholarship on EMNEs’ internationalization through cross-border acquisition by addressing pertinent questions raised in the call for papers for this special issue (Aulakh, Kundu, & Lahiri, 2013), i.e. “How do [EMNEs] learn and build knowledge from their prior internationalization moves out of their home markets? What strategies and structures do they employ to use existing knowledge (Peng, 2012)?” We show that the combination of in-house resources with experiential market knowledge and externally sourced technological knowledge, facilitates cross-border acquisitions by the EMNE. Experiential market knowledge helps the EMNE to identify constraints and opportunities for acquisition in host markets, while externally sourced technological knowledge augments the technological competence of the EMNE.

Our findings challenge the popular conclusion that EMNEs lack requisite international experience (Aulakh, Kotabe, & Teegen, 2000; Brouters, O’Donnell, & Hadjimarcou, 2005; Elango & Pattnaik, 2007), and resources (Bartlett & Ghoshal, 2000; Child & Rodrigues, 2005; Chittoor, Sarkar, Ray, & Aulakh, 2009; Dunning, Kim, & Park, 2008; Isobe, Makino, & Montgomery, 2000; Mathews,

* Corresponding author at: Centre for International Business, Leeds University Business School, University of Leeds, Leeds, LS2 9JT, United Kingdom.

E-mail addresses: P.J.Buckley@lubs.leeds.ac.uk (P.J. Buckley), S.Munjal@lubs.leeds.ac.uk (S. Munjal), peter.enderwick@aut.ac.nz (P. Enderwick), N.Forsans@exeter.ac.uk (N. Forsans).

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2006). This view suggests that their internationalization is either based on country specific advantages, such as a low cost base at home (Bartlett & Ghoshal, 2000; Narula, 2012), government policies and institutional support (Buckley et al., 2007), ties with host countries (Buckley, Forsans, & Munjal, 2012), or through participation in networks (Bhaumik, Driffield, & Pal, 2010; Elango & Pattnaik, 2007; Mathews, 2006).

Scholars (e.g. Dunning, 2006; Narula, 2006; Ramamurti, 2012) argue that country specific advantages and networks alone do not provide sufficient conditions for the firm's internationalization. Internationalization especially during the early stages of the firm's life cycle – where most of the EMNEs are – requires capabilities and resources to overcome the costs and risks associated with it (Andersson, Johanson, & Vahlne, 1997; Eriksson, Johanson, Majkgard, & Sharma, 1997; Johanson & Vahlne, 1977; Sapienza, Autio, George, & Zahra, 2006). Elango and Pattnaik (2011) further emphasize the importance of knowledge management and learning in this regard. Extending this line of argument, we argue that the EMNE possesses certain resources and capabilities that enables it to undertake acquisitions of foreign firms. We show that EMNEs manage their knowledge and resources in a number of ways: first, amassing market knowledge of potential host markets from prior operations such as exports; second, sourcing technological knowledge, which cannot be adequately developed internally, from external sources; and third, exploiting learning and knowledge by combining them with organizational resources when internationalizing.

Knowledge acquisition and exploitation by EMNEs follow the conventional view that treats the firm as an institution for integrating knowledge (Grant, 1991, 1996) and supports the evolving body of research on EMNEs' internationalization which suggests that the EMNE possesses managerial skills (Chittoor, Aulakh, & Ray, 2015), the capacity to absorb external knowledge (Chittoor et al., 2009; Kotabe, Jiang, & Murray, 2011), and the ability to bundle country specific advantages with their own firm specific advantages (Hennart, 2009). Our findings have implications for the Uppsala model (Johanson & Vahlne, 1977, 2009; Johanson & Wiedersheim-Paul, 1975) as we examine the EMNE's strategies of amassing and exploiting learning and knowledge that enable it to surmount the intermediate stages of internationalization. This analysis is supportive of the Global Factory theoretical framework (Buckley, 2009, 2011a, 2011b, 2015) in that it emphasizes the integration of in-house (internalized) knowledge with that obtained beyond the core firm.

2. Theory and hypothesis development

The role of learning and knowledge has long been part of the core of both the international business and strategy literatures. Experiential knowledge, i.e. learning acquired through the means of personal and professional experience of conducting international business in home and host countries, formed the initial basis of the Uppsala model of internationalization (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). In 2009, Johanson and Vahlne revised the model to include the role of non-experiential knowledge sourced from other firms in the internationalization process. The model thus suggests that the firm's international expansion is a function of its learning and knowledge which can be gathered from either the firm's own operations in the market, or from inter-firm networks in which the firm participates (Ahuja, 2000; Elango & Pattnaik, 2007; Gulati, 1998; Johanson & Mattson, 1988). The model emphasizes that lack of knowledge is a barrier in the process of internationalization. Knowledge deficit increases the perceived risks and costs of internationalization, restricting the firm's willingness to undertake FDI (Eriksson et al., 1997). Thus, the model captures both evolutionary and behavioral dimensions of

the firm's internationalization, highlighting the means by which the firm assembles its knowledge and learning in the process of internationalization (Forsgren, 2002; Johanson & Vahlne, 2009).

The Uppsala model provides helpful insights into the internationalization of EMNEs because many of them are in the early stages of internationalization (Elango & Pattnaik, 2007, 2011). The EMNE, like other firms, is likely to gain market knowledge by servicing foreign markets. It helps the EMNE in reducing psychic distance, provides valuable insights into competition, regulation and consumer behavior, and aids in identifying and evaluating market opportunities. Most importantly, engagement with host markets either through exports or imports is a cost effective way of gaining foreign market knowledge and therefore, firms during the early stages of internationalization often learn by trading with foreign markets (Araújo & Salerno, 2015; Cieřlik, Kaciak, & Thongpapanl, 2015; Denis & Depelteau, 1985; Erramilli & Rao, 1990; Ling-Yee, 2004; Munjal & Pereira, 2015).

In contrast, technological know-how is more time consuming, riskier and more costly to develop in-house (Cohen, Eliasberg, & Ho, 1996; Pisano, 1990; Smith & Reinertsen, 1998). The EMNE thus seeks to source technological know-how externally. In fact, their internationalization is often based more on technology exploration than technology exploitation (Chittoor et al., 2009; Lall, 2000; Narayanan & Bhat, 2010). Sourcing technological know-how helps EMNEs to fill deficiencies in their technological know-how, catch-up with peers, and upgrade their technological competencies by combining sourced know-how with their internal research and development (R&D) (Aggarwal, 2000; Dunning et al., 2008; Thite, Wilkinson, Budhwar, & Mathews, 2015). The extant literature (Buckley, Munjal, Enderwick, & Forsans, 2016a, Cassiman & Veugelers, 2006; Sapienza, De Clercq, & Sandberg, 2005) suggests that complementary knowledge enhances the competitive advantages of the firm, which is likely to have a positive effect on its internationalization.

The revised Uppsala model (Johanson & Vahlne, 2009) emphasizes the network aspect of internationalization but does not include technology change or innovation. Amassing non-experiential knowledge, through technology acquisition for example, conflicts with the basic assumption of the Uppsala model which suggests that the firm spreads its (fixed) internal technology – or fixed bundle of goods and services – across world markets in the process of its internationalization (Buckley, 2015). Thus, the assumption that firms are technologically static, renders the Uppsala model inadequate for exploring the role of externally sourced technological knowledge on the firm's internationalization. This points us to the Global Factory theoretical framework (Buckley, 2009, 2011a, 2011b, 2015) which examines internalization and outsourcing decisions for all activities carried out by the focal firm during the course of its internationalization. It is thus an ideal framework to consider internal and external sources of knowledge. A major success attribute of the Global Factory structure is 'interface competence' – the ability of the firm to integrate and control external sources of goods and services and knowledge with internal resources. The Global Factory model (Buckley & Ghauri, 2004) suggests that the focal firm coordinates its network constellation of liked firms both horizontally and vertically, as shown in Fig. 1. Horizontal coordination represents the learning aspects of the global factory network as knowledge and information transferred throughout the global network, orchestrated by the focal firm (Buckley, 2009, 2011a, 2011b). Vertical coordination is affected through the value chain and multistage activities are controlled (but not necessarily) owned by the focal firm (Buckley, 2004).

The Global Factory model highlights the progress of managers of MNEs in integrating and coordinating each stage of the value chain whilst controlling the whole of the supply chain through not

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