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How does uncertainty impact opportunity development in internationalization?

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ABSTRACT

The features of the internationalization of emerging market multinational companies (EMNCs) create a laboratory for extending theory. In this paper, we argue that a high level of asymmetry between prior knowledge and a non-incremental commitment, such as an acquisition, lies at the core of understanding these types of internationalization processes. Our proposed theoretical view is that while some uncertainties in opportunity development are known to the firms and can be managed by available knowledge, disruptive commitments can result in complexes of unstable and unilineal dynamics that bring about unexpected – and hence unforeseeable – uncertainties. These uncertainties may be a source of future unintended consequences that will have an impact on the firm as the internationalization process unfolds. This view is used for analysis of a longitudinal case study concerning the acquisition of a Swedish firm, Vargön Alloys, by the Turkish corporation Yildirim Group, focusing on the opportunity discovery and exploitation period between 2008 and 2013. By dividing uncertainty into two types (foreseeable and unforeseeable) and analysing the hidden problems that emerged after the sudden fusion of the two networks, the study nuances understanding of the emergent and non-orderly nature of the internationalization process as it unfolds. From a process point of view, the study may aid deeper understanding of complications when discovering and exploiting opportunities.

1. Introduction

Recent studies have extensively documented the behaviour of both western multinational companies (MNCs) and multinational companies from emerging markets (EMNCs) (Aulakh, Masaaki, & Teegen, 2000; Demirbag, Tatoglu, & Glaister, 2009, 2010; Nicholson & Salaber, 2013). However, the behaviour of EMNCS *in* the west has been relatively untouched (Peng, Wang, & Jiang, 2008; Jormanainen & Koveshnikov, 2012). Many new EMNCs from countries such as South Africa and Turkey are internationalizing rapidly and looking to the west for opportunities; in fact, the growth in foreign outward investment over the last two decades by multinational companies based in emerging markets is dramatic. To overcome constraints of being latecomers to the international business sphere, EMNCs often demonstrate extensive and quick resource commitment in foreign market entry through acquisitions (Freeman, Edwards, & Schroder, 2006). The importance of these emerging and transition economies is evident from their roles as acquirers.[1] However, these EMNCs often seem to struggle with high uncertainty and insufficient international knowledge (Hadjikhani et al., 2012). Nicholson and Salaber (2013) and Tsai and Elsingerich (2010), among others, have suggested that there is limited knowledge about the processes through which these latecomers are trying to catch up with existing MNCs.

Much of the EMNC literature can be roughly divided into two camps. Scholars on one side argue that the extant body of literature explaining the internationalization of traditional Western MNCs is irrelevant for understanding EMNC internationalization (e.g. Mathews, 2006; Luo & Tung, 2007). In the other camp, scholars maintain that new theory is not required, because the explanatory power of existing theories is robust (e.g. Li & Oh, 2016; Narula, 2011; Rugman et al., 2016). In this paper, we follow what Cuervo-Cazurra (2012) calls the 'third' camp, and argue that the unique features of EMNC internationalization create a laboratory for extending existing internationalization theory (Ramamurti, 2012). Thus, while the underlying theoretical stance of this paper relies on the theoretical foundations of the behavioural theories of internationalization (i.e. Johanson and Vahlne, 1977), it adds to the existing literature on internationalization by focussing on EMNC behaviour during the process.

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[1] By 2014, cross-border mergers and acquisitions by emerging market multinational companies rose by 36% to $186 billion, accounting for 53% of global cross-border M & As. Furthermore, in just the first three months of 2015, acquisitions by MNCs from developing economies in developed economies rose to 47% of total cross-border M & A purchases (UNCTAD, World Investment Report, 2014; 2015)

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The internationalization process is usually considered to be marked by a pattern of incremental commitment and a stepwise increase in experiential knowledge (Johanson & Vahlne, 1977). In contrast, the internationalization pattern found among new EMNCs reveals a severe imbalance between prior knowledge and commitment (Luo & Tung, 2007; Madhok & Keyhani, 2012). In particular, acquisitions (as the primary means of internationalization for EMNCs) demonstrate the unique asymmetries characterizing internationalization of EMNCs. Calling acquisitions a 'grey box', Zander and Zander (2010) argue that it is basically impossible to know everything about a targeted cross-border acquisition beforehand, because some things are not knowable *ex ante* and only reveal themselves later through interactions. This marked asymmetry between low prior knowledge and non-incremental commitment in acquisitions, we claim, lies at the core of understanding internationalization processes of EMNCs.

In addition to knowledge and commitment decisions, central roles are also played by uncertainty and opportunity development, and the works of Aharoni (1966) and Kirzner (1973) provide us with a foundation for understanding these two factors. In particular, our study emphasizes the notion of uncertainty in the internationalization process. We propose that, while some uncertainties are known to the firms and can be managed by available knowledge, disruptive commitments could result in complexes of unstable and unilineal dynamics, bringing about unexpected – and hence, unforeseeable – uncertainties (cf. Wiesenfeld, Wurthmann, & Hambrick, 2008). As researchers such as Knight (1921), Aharoni (1966), Kirzner (1973, 1997), and MacKay and Chia (2013) argue, this latter type of uncertainty can always result in unintended consequences that can negatively affect the firm as internationalization unfolds.

This study was guided by the following empirical research question: How do MNCs from new emerging markets (EMNCs) manage opportunity discovery and exploitation in their internationalization processes? Here we argue that current research gives too much credit for what happens during internationalization to either deliberate commitment decisions and managerial actions, or to the exogenous environmental forces that constrain agency to the point at which all a firm can do is learn incrementally and react as it copes with ambiguity and uncertainty (cf. MacKay & Chia, 2013). Our purpose is to demonstrate that internationalization processes develop as a result of interactions between a firm's commitment decisions and forces that are imposed by that firm's extended relationships (constituting its international context). Furthermore, we demonstrate how EMNC internationalization differs from that of a traditional MNC by focusing on some aspects of the process that are usually dormant if internationalization proceeds along a more stable and incremental path. It is our hope that this study will extend the application of extant theories, and thereby go beyond simply filling a gap in EMNC internationalization research.

This study is based on a longitudinal case study of the acquisition of a Swedish firm, Vargön Alloy, by a Turkish EMNC, Yildirim Group. The empirical study covers the opportunity search period in 2008 and the exploitation period between 2008 and 2013. After a short literature review, the paper will introduce a theoretical view for the analysis of the empirical case. Next, methodology, data collection, and analysis of case material will be discussed, after which the case will be presented, followed by discussion of the case findings. The discussion ends with proposition development followed by conclusions.

2. Literature review

Building mainly on transaction cost economics, some scholars suggest that an internationalization process is based on an economically calculated and rational chain of decisions, driven by opportunity motives such as access to technological resources (Chen & Tan, 2012; Delios & Beamish, 2001). The majority of the aforementioned studies are concerned with how to effectively exploit existing opportunities. The resource-based view, another dominant theoretical lens, focuses on competitive advantages that derive from a set of valuable and rare assets that a firm needs to control or have access to (Teece, Pisano, & Shuen, 1997). Along this track, Luo and Tung (2007) assert that EMNCs purposefully use international acquisition to acquire strategic resources, while others, like Tsai and Elsingerich (2010) and Zeng, Zeng, Xie, Tam, and Wan, 2012, emphasize the attainment of specific critical resources such as technological know-how and R & D capabilities. While these efforts do reveal reasons for new overseas opportunities and motivations for internationalization, they have overlooked questions concerning (a) why some opportunities face obstacles or fail despite appropriate motivation; (b) how these firms manage their internationalization processes in cases of mergers and acquisitions (Deligonul, Elg, Cavusgil, & Ghauri, 2013).

Some studies, using the process view of internationalization, have tackled the aforementioned issues by addressing the inevitable uncertainty in resource commitments. An inherent imbalance between knowledge and commitment is the vantage point for the behavioural view of internationalization, and from this perspective, the distinctive feature of the process is that uncertainty is managed by increasing knowledge through experience and network relationships (Johanson & Vahlne, 2009). As such, the main role of experiential knowledge is to reduce uncertainty associated with the foreign market commitments (Johanson & Vahlne, 1977; Buckley & Ghauri, 1994). In this view, uncertainty still stands within the limits of rationality, encompassing only what is known to be unknown (Figueira-de-Lemos et al., 2011). This logic is questioned by researchers with regard to non-incremental commitment, such as rapid internationalization by merger and acquisition (Hadjikhani, Hadjikhani, & Thilenius, 2014), divestment (Benito & Welch, 1997; Figueira-de-Lemos & Hadjikhani, 2014), and market exit (Dixit & Chintagunta, 2007; Welch & Luostarinen, 1988). In addition, researchers like Santangelo and Meyer (2011) have suggested that the problem of uncertainty is much aggravated by the complexity and heterogeneity in interactions between firms belonging to completely different markets.

Accentuating the role of knowledge, authors like Parsons (2007) and Ashton, Cook, and Schmitz, 2003 are concerned with the intrinsic lack of knowledge in disruptive commitments (Forsgren & Hagström, 2007). Opportunity discovery and exploitation are driven by market-seeking motives (Chen & Tan, 2012) and connected to experiential knowledge (Johanson & Vahlne, 2006) through the recognition of gaps; however these processes remains problematic for the firm because of insufficient knowledge of future events. In fact, the processes of opportunity discovery and exploitation entail an entirely different type of uncertainty (Kirzner, 1973, 1997). Kirzner (1973) argues that when seeking opportunities, business actors are ignorant of some aspects that might unfold during the exploitation process, and he distinguishes between unknown and known ignorance. In contrast to ongoing business processes, which are based on experiential knowledge, a discovery followed by exploitation is likely to involve a serendipitous strategy process characterized by luck or misfortune (Aharoni, 1966), which are by definition uncertain.

More recently, MacKay and Chia (2013) put forth a view of strategic change that embraces the surprising, complex, and sometimes random nature of the internationalization process. The authors oppose much current theorizing of strategic changes, which tends to either emphasize actors purposefully bringing about a desired course of events, or to assign a central role to pre-existing environmental forces. As an alternative, they propose a balanced approach − an 'unowned' view − that elevates the role of chance and uncertainty in change processes such as firm internationalization. Here, the process is attributed to a lack of foresight and effective actions on the part of incumbent actors, specifically when actors commit disruptively; that is to say, when actors pledge a high level of commitment despite a low level of experiential and relationship knowledge. Such a view does not refute the notion that managers take purposeful actions, but it acknowledges that "every choice made and every deliberate action taken are necessarily partial"