Internationalization, acquisition and the emerging economy MNE

Anoop Madhok
Background

• Rapid emergence of EE MNEs
• Last studied in the late 70s
  – State-dominated
  – Mostly primary sector
  – Minor role in global commerce
• Little is known about their internalization process:
  – Different?
  – Is extant theory relevant?
Theory and internationalization of EE MNEs

• Past theory rooted in economics and IB
  – Focus on advantage exploitation
• Can (and how can) strategy theory shed more light on EE MNE internationalization?
  – Internationalization through acquisitions in advanced economies
• Dynamic capabilities theory as the basis for a ‘novel’ argument of firm internationalization
  – Position
  – Path
  – Processes
• Acquisitions and the ‘liability of emergingness’
  – The search for advantage creation from common resources
Theories of internationalization

- International PLC model
- International process (or stages) model
- The OLI framework
Theories of internationalization: 1. The PLC model

- Firms follow a sequential internationalization process.
- MN firms create advantages in their own (i.e. advanced) home markets due to leading-edge demands.
- \( X \rightarrow \) sales subsidiary in other developed countries \( \rightarrow \) production in other developed countries and sales in developing \( \rightarrow \) production in developing economies and \( X \rightarrow \) to developed countries.
2. The internationalization process (stages) model

- MN firms create advantages in their own (i.e. advanced) home markets
- Firms follow a sequential internationalization process, both within and across countries
- $X \rightarrow$ agents/partnerships/JVs $\rightarrow$ sales subsidiary in other developed economies $\rightarrow$ production in host economies
Comparison of stages and PLC models

- Firms tend to follow an incremental and sequential intzn process
- First choose countries that are similar to the country of origin
- Subsequently move into countries that are different
- Relevant dimension of similarity:
  - Sociocultural
  - Behavioral

- Firms tend to follow an incremental and sequential intzn process
- First choose countries that are similar to the country of origin
- Subsequently move into countries that are different
- Relevant dimension of similarity:
  - Consumer
  - Economic
3. The OLI framework and internationalization

• The ownership advantage:
  – Advantages arising due to control over income generating assets

• The location advantage:
  – Advantages offered by the particular location

• The internalization advantage:
  – (Efficiency) advantages arising through internalization of economic activity over the market (through a WOS)
Questions

• Is the O advantage a necessary pre-condition for firms to invest abroad?
• Is the exploitation of the existing O advantage the sole motive for firms to invest abroad?
• Is the O advantage solely created in a leading-edge (advanced economy) market?
• Is it necessary to adopt the ‘establishment chain’ as the entry mode strategy?
• Is it necessary to adopt economic or psychic distance as the entry point strategy?
Questions

• Do O advantages reside within the boundary of a stand-alone firm?
• Does the liability of foreignness have to be remedied by the own effort of a stand-alone firm?
• Why is foreignness a liability rather than an asset to complement a partner’s skills?
Emerging economy multinationals

• How much can we apply knowledge from extant internationalization theory to the MNEs from emerging economies?
  – Liability of origin (i.e. ‘emerging-ness’)

• What can the evidence from EEs offer to enhance extant MNE theories?
Emerging economy multinationals

• Extant MNE theories may not be so applicable, in terms of asking the right questions. For instance:
  – How do or can EE MNEs achieve their initial competitive advantages?
  – How can the latecomers from the EEs catch up and compete with established MNEs from the developed countries?
Emerging economy MNEs

- National environment has some common features, because they are all emerging markets:
  - Much faster growth in home markets.
  - Under-developed markets, unsophisticated customers, weak suppliers, resource scarcities, and infrastructure bottlenecks.
  - Their “soft infrastructures” are also under-developed, resulting in market economies with many “institutional voids”

- Late internationalizers
Liability of origin

• Lack of competitiveness due to institutional protection in the past \(\rightarrow\) location-bound advantages
  – Lack of ‘world-class’ capabilities, resources, and information
  – Lower technological and/or managerial standards at the home country,
  – Limited exposure to global competition.
• Lack of brand or technology results in excessive reliance on price-based competition
• Lack of international experience
• Smaller in size and also unlikely to enjoy scale advantages compared to more global firms
Established vs EE MNEs

- Start big
- Possess key resources/capabilities
- Often close to major markets
- Start out cautiously and feeling one’s way through
- Incremental intzn
- World full of competitors trying to imitate their success
- Technological innovation

- Start small
- Inadequate resources/capabilities
- Often lack of proximity to major markets
- Integrated world market from outset
- Accelerated intzn
- World full of resources of others waiting to be tapped
- Strategic/organizational innovation
Established vs EE MNEs

- Focus on own advantage
- Exploitation: Much to lose and little to gain by sharing resources
- Often preference for a wholly-owned subsidiary due to leaky knowledge

- Focus on advantage of others that can be accessed
- Exploration: Much to gain by resource sharing
- JVs/partnerships or acquisitions as first option
Specific characteristics of EE MNE internationalization

- The internationalization behaviour of EE MNEs exhibits unique characteristics
- Adopt ‘abnormal’ internationalization paths (with respect to speed, geographical scope, etc)
  - Rapid and aggressive
  - High prevalence of acquisitions in advanced economies
  - Reverse internationalization
Why acquisitions?

• Locational resources not available equally to all foreign firms
  – Due to origin and administrative heritage, EE MNEs lack adequate insight into the general business and institutional environment
  – Discrimination hazards due to LoF and LoE
    • HR
    • Buyers/suppliers
    • Networks

• Acquisitions help overcome the liability of emergingness
Acquisitions as opportunity to learn

• Acquisitions function as source of knowledge acquisition and diffusion
• Starting point and history shapes approach towards acquisitions
  – Learning vs efficiency/power
  – Less need to rationalize/re-structure
  – Greater likelihood of supporting target
  – Reverse internationalization adds further value
  – Helps overcome hazards associated with LoE

→ Greater likelihood of genuine partnership vs hunter/hunted
Overcoming the LoE through acquisition

- What is needed is not just technology but organization and management, i.e. a new way of doing things
- Where the purpose is learning, a firm may prefer a carefully targeted acquisition
  - Can control transfers of personal and task redistribution explicitly for the purpose of building AC.
- The acquired firm can better help overcome legitimacy and credibility problems
  - Reputation boost overseas can increase the EE firm’s standing in home market
- With acquisitions, also acquire the networks (and knowledge resident in them) and buyer-supplier base of target, which could also be international.
Acquisitions vs other forms

• A WOS cannot easily overcome the LoE
• A JV involves a new separate firm which is partially cordoned away from the parent
  – Cannot offer all the advantages of acquisitions for overcoming the LoE
• Licensing is relevant only when main interest is technology
Value vs cost of acquisition

- Overcome certain hurdles that advanced economy competitors don’t face
- Learn to compete in advanced economies
- Reduce overconcentration in home economy
- Reverse internalization
- Asymmetries make acquisitions worth more to EE acquirer (than the price paid)
- Family-owned impacts attitude towards risk
Acquisitions and competitive catchup: The challenge

• How can firms that lack initial competitive advantage and resources to access foreign markets utilize cycles of linkage, leverage, and learning (Mathews 2006) to identify and achieve competitive advantage?

• How can a firm convert its latecomer status and the liability of ‘emerging-ness’ into an asset?
Competitive catch-up

- Economic progress is a learning process
- Firms are essentially constrained by their past
- The EE MNE firm cannot wait to have the needed assets before launching into the international arena
- This arena itself is the source of building up these assets and capabilities.
- Firms internationalize in search of learning opportunities in order to catch up with their competitors
Acquisitions and competitive catch-up

• Through their acquisitions, firms are making investments in competitive catch-up through enhancing their knowledge base and absorptive capacity, not necessarily to be on the competitive frontier or leading edge.

• The focus of innovation in catching up, is to learn to master new ways of doing things

• The key driving force in catching up is assimilation, i.e., learning to do effectively what others at the frontier have been doing for some time
Towards a ‘new’ perspective on internationalization

- Understanding EE MNE internationalization through traditional advantage-based lens: Square pegs in round holes?
  - Starting point and paths differ
  - Unequal resources of the conventional kind (e.g. technology/brand)

- How can EE firms build up on what they do have, stemming from their origins and are rooted in the liability of emergingness?
Asymmetry and competitive advantage

- Do advantages → asymmetries or vice-versa?
- Can firms identify and build upon asymmetries to ultimately create advantage?
- EE MNE internationalization could be motivated by the creation of competitive advantage through building on asymmetries and combining this with complementary resource/knowledge acquisition and capability development
Austrian entrepreneurship: An alternative manner of strategizing

- Firms strategize around
  - how to identify the needed resources
  - how to acquire them once identified, and
  - how to recombine them into distinctive combinations and build a business around them
- Being alert to opportunities and seizing them as they arise
  - Competitive advantage can arise from tightly linking often ordinary resources and leveraging these with different complementary resources through loosely linked and “semi-structured organizational processes composed of simple rules to capture fleeting market opportunities”. (Bingham and Eisenhardt)
• Relax the traditional assumption that resources have to start off being valuable.
• In many cases, EE firms start off with nothing (or disadvantages), not advantages.
• Rather than exploit an existing advantage, firms may instead be able to build competitive advantage starting from the resources and capabilities they already possess (Miller 2003), regardless of whether they are valuable or not.
• Given the logic of sensing and seizing opportunities, strategy consists of engaging in organizational processes that put the firm in an abundant flow of attractive opportunities.
• Acquisitions are one important aspect of the pursuit of such opportunities
Asymmetries and the ‘asset of emergingness’

• Different starting positions, paths and processes result in asymmetries
  – Latecomer advantages

• Asset of emergingness
  – ‘chutzpah’, quickness, ability to improvise and ability to squeeze the most out of adverse circumstances
  – Greater readiness for Austrian kind of entrepreneurship

• Learning ability vs learning agility
Conclusion

• Existing IB models often neglect learning and, if not, tend to neglect absorptive capacity
• Existing IB models often neglect acquisitions
• Existing IB research on internationalization through acquisitions tend to address more IO-related issues, e.g. market structure
• TCE not well-equipped for the choice between WOS and acquisition
• By incorporating dynamic capability and entrepreneurship arguments, we (seek to) provide a distinct perspective toward explaining the internationalization of EE MNEs.