Explaining emerging multinational acquisition in advanced economies: A learning and catch-up perspective

Overcoming the liability of emergingness through internationalization by acquisition: Learning and competitive catch-up by emerging multinationals

The study of multinational enterprises (MNEs) in the past has been mainly focused on the large firms from the advanced economies (i.e., the so-called US, Europe, and Japan triad). Although some scholars did investigate MNEs from developing countries in the 1970s (Lall, Caves, Kumar), their studies were conducted mainly at the macroeconomic level and, in any case, at that time these firms were mostly state-dominated, restricted to a very limited number of (mostly primary) sectors, and played a minuscule role in global commerce. The latest wave of outward foreign direct investment from developing countries is a far more substantive and widespread phenomenon and appears to be here to stay.

Different terms have been used to refer to various groups of developing countries at various points in time, including ‘third world’, ‘newly industrialized economies’, ‘transition economies’, and, in its latest guise, ‘emerging economies’ (EEs). Either way, it is generally recognized that a surge of MNE activity from the supposed ‘periphery’ of global commerce is reshaping the structure of international business (Sirkin, Hemerling and Bhattacharya, 2008). These developments have been both sudden and somewhat unexpected.

Although many MNEs from emerging economies, especially but not just limited to the BRIC countries (Brazil, Russia, India and China), are going global to compete in international markets, little is known about the internationalization processes of these firms (Cuervo-Cazurra 2007). Many of the theories explaining the outward investment
and internationalization activities of firms, such as the international product lifecycle model (Vernon 1966), the stages model (Johanssen and Vahlne 1977) and the ownership-location-internalization framework (Dunning 1975, 1988), were developed a few decades ago and were based on the experiences of multinational firms from the US and Europe. Notwithstanding their (still) popular support, they can be and have been criticized (Buckley et al) for not being so relevant to EE MNEs whose starting points and whose internationalization patterns and paths are quite distinct. With respect to the former, in contrast to the more established MNEs, EE MNEs tend to be based in countries that can be characterized as low to middle income and with institutionally weak environments, often do not possess proprietary advantages such as technology and brand when they venture abroad, and tend to be latecomers entering a crowded arena.

With respect to the latter, internationalization strategy raises three broad questions: (1) how rapidly should the firm internationalize (2) which markets should it enter (3) which modes of entry should it use, i.e. contractual arrangements, exports, greenfield investments, or acquisitions. Once again EE MNEs appear to be charting a different path, as reflected both in terms of destination countries as well as the means of internationalizing. Firms from these countries have not only internationalized rapidly but have surprised observers by their bold and aggressive methods in the early stages of their outward internationalization (Sirkin et al 2008), entering not just other EEs, which would be understandable going by conventional theory, but also into advanced economies. Moreover, in the latter case, they have shown a marked preference for acquisitions (UNCTAD 2006), an aspect that has been relatively neglected by conventional theories.
The distinct characteristics of EE MNEs, in terms of their speed, scope and means of internationalization, raise questions about extant theories and call for new explanations. In this regard, much of the theoretical argument to date on outward foreign direct investment and firm internationalization, both at the macro and micro level, has been rooted in international business and economics literature. In our view, since firm internationalization is fundamentally a strategic issue, combining some of the central concepts highlighted in the international business literature more substantively with some of the more recent and significant developments in strategy, potentially opens up possibilities for novel conceptual explanations. Specifically, drawing upon evolutionary economics, the dynamic capabilities stream of literature, emphasizes the path-dependent nature of firm strategy and behavior. The basic argument is that a firm’s routines are shaped by its past experiences and become part of its DNA. Thus, if a firm’s position, path and developmental experiences were to differ, its way of doing things, i.e. its mindset and routines, correspondingly differ and, being embedded within the firm, cannot be changed so easily.

In this paper, we apply the dynamic capabilities perspective to the overseas foreign direct investment strategies of EE MNEs. In their outward internationalization through foreign direct investment, evidence seems to suggest a two-pronged strategy: a preference for entry through greenfields in other EEs and through acquisitions in the more advanced economies (UNCTAD 2006). Our focus is explicitly on the latter, this aspect being what has particularly caught many observers offguard, partly because it was so unexpected and partly because it cannot be explained so easily by extant international business theory. EE MNEs such as Cemex from Mexico and Tata from India, to name
but a few, have become prominent global players in their respective industries (cement, steel, auto) through such acquisition-based strategies\(^1\).

In explaining internationalization through acquisition, we emphasize how acquisitions can help EE MNEs overcome what we term as the ‘liability of emergingness’. We also explain how acquisitions can serve as a mechanism for such learning. Although the argument of acquisition for learning is not altogether new (Vermeulen & Barkema 2001), we put a different twist on it in the context of competitive catch-up by EE MNEs.\(^2\)

The paper is organized as follows. The next section discusses in more detail the liability of emergingness and its relevance. The subsequent section discusses how acquisitions can help not only overcome the liability of emergingness but also how it enables the EE firm to competitively catch up. Next, we locate the phenomenon of acquisitions from a somewhat novel theoretical perspective that rests more on notions of Austrian notions of entrepreneurship and learning. Here, in making a marked departure from traditional international business perspectives that assume an existing firm advantage, we argue that outward internationalization through acquisition can be explained by a search for advantage creation when firms possess mainly ordinary resources. Finally, we argue that, for the entrepreneurially alert firm, the liability of emergingness may be a cloud with a silver lining and that, embedded within the liability

\(^1\) We explicitly exclude state-owned or natural resource-dominated investments from our argument since the drivers may be of a different nature.

\(^2\) The learning logic is very relevant, since most outward direct investment by EE firms was where the host country was ahead. Here, investment is often for capability upgrading.
of emergingness may be lurking a potential asset of emergingness that may enable the conversion of this liability into an advantage by facilitating better assimilation of knowledge through its acquisition.

**Emerging economy multinationals (EE MNEs) and the liability of emergingness**

In the more established theories, MNEs begin internationalizing from a position of strength, having developed their advantages in their (typically advanced) home market prior to exploiting it overseas (Caves, Hymer). This advantage, typically technology or brand, shields the firm from the liability of foreignness (Zaheer). Moreover, one could even argue that the liability of foreignness is often counterbalanced to a significant extent by the ‘asset of foreignness’, in particular in less advanced economies, since there is a perception of MNEs from more advanced economies being superior.

In contrast to MNEs from advanced economies, the national environments within which EE firms operate typically suffer from a number of disadvantages, which become particularly apparent when the firm enters the global competitive arena. First, they tend to be characterized by under-developed markets, unsophisticated customers, weak suppliers, resource scarcities, and infrastructure bottlenecks (Ramamurthy and Singh 2009). Additionally, their soft infrastructures, e.g. regulatory, are also under-developed, resulting in economies with many institutional voids (Khanna and Palepu 1997). Second, being based in previously protected economies, the erstwhile limited exposure to global competition and the consequent lower technological and managerial standards in the home country results in inadequate resources and capabilities compared with competitors from industrialized countries. Third, relative to established MNEs, even if dominant in
their home markets, emerging market firms are unlikely to enjoy scale advantages in production, research, marketing, distribution, branding, or global sourcing. Fourth, they happen to be what may be called late internationalizers in that the established MNE are already present, even entrenched. Fifth, unlike established MNEs, most of the sources of advantage at home, such as distribution, brand, customer relationships, government relationships, etc, are usually not mobile. Consequently, there are few monopolistic advantages for EE MNEs in foreign markets and their competitive advantage overseas, in particular in the advanced economies, tends to be based on price competition rather than technology or brand.

All these factors collectively result in what may be termed as a ‘liability of emergingness’, which can be considered as a disadvantage experienced by EE MNEs by virtue of their being based in an emerging economy. The liability of emergingness exacerbates the liability of foreignness and, coupled together, the two pose enormous challenges. Yet, as mentioned, we are witnessing a relentless increase in the pace and reach of the international activities of these firms (Moreover, as mentioned earlier, data seems to suggest a rapid rise in investments in advanced economies, especially through acquisitions UNCTAD 2006). ³

**ACQUISITIONS BY EE FIRMS**

**Why Acquisitions?**

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³ In recent years, EE MNEs have shown a proclivity towards acquisitions, particularly in the advanced economies, with 85% of M&As greater than $300mn having their targets in these economies (UNCTAD).
In the previous section, we underlined why, due to the liability of emergingness, the EE firm often does not have adequate capabilities to be globally competitive or manage international operations successfully relative to their advanced economy competitors. Moreover, besides the source of its competitive advantage at home not being so mobile, it has relatively little experience with and knowledge of foreign institutional environments. To compete successfully therefore, it needs to develop new routines and learn new ways of doing things. This has to do not so much with just the technology but with management and organizational knowhow as well as aspects concerning the institutional environment (e.g. corporate governance, product standards, safety regulations, etc).

In extant approaches towards internationalization, there is an implicit assumption that locational resources are in principle available equally to all foreign firms that participate in a location. In questioning this, Barnard (2009) points out the challenges confronting EE MNEs, especially in advanced economies. First, given their origin and administrative heritage, they lack adequate insight into the general business and institutional environment, perhaps more so than foreign firms from other advanced economies. Thus, they may not be able to fully realize the potential offered by the location and may be particularly disadvantaged by requirements that challenge them but that may spur others, especially in a competitive industry. Second, not only do they lack advantages but, due to the dual liabilities of foreignness and emergingness, they face discrimination hazards that would manifest themselves in different ways. First, resources, e.g. personnel, can in principle be accessed through the market but, being an outsider lacking in status, credibility and legitimacy and given the handicap stemming from the
dual liability, it is difficult to attract the best quality personnel. Second, and for similar reasons, they face problems attracting the most sophisticated suppliers and users who could help them improve their capabilities to the extent needed. Third, since they remain on the margins of the industry, they are excluded from other less direct but nevertheless important benefits such as networks, and the associated information advantages, that would be available to the more established competitors.

In brief, there are many critical resources present in a location that are not so easily available to the EE firm compared to its more established competitors, both local and foreign. This in turn poses significant challenges that a wholly owned subsidiary would not easily overcome. Acquisitions offer an attractive option to overcome such resource handicaps stemming from the liability of emergingness, more so since the acquired firm is accompanied by the knowledge of its employees as well as that of its customer and supplier base, which could well be both world-class and international in scope⁴.

However, acquisitions do not serve just as a means of access to resources but also, and often more importantly, as an opportunity to learn. Here, the motivation for acquisitions by an EE MNE can be quite distinct. From a dynamic capability perspective, the starting point and history of a firm would shape its approach towards acquisitions. For instance, for established firms that already possess an existing advantage and an international presence, an acquisition would more likely be more from an efficiency or

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⁴ Many acquired firms are not necessarily struggling or possessing inferior knowhow but, rather, see that strategically their future would be more promising as part of another (suitable) firm (Graebner).
power perspective, i.e., to attain economies of scale, rationalize and restructure operations, eliminate a potential competitor, etc. Such acquisitions are often accompanied by closure of operations and reduction of headcount. In the case of EE MNEs in contrast, an EE firm and the target in the advanced economy host country are more likely to be in adjacent and complementary segments (i.e., high and low end) of the market or technology, thus avoiding a competitive overlap and a similar need to rationalize. More importantly, to the extent that EE firms acquire for purposes of learning and catch-up with their more established competitors, they have the motivation and incentive to preserve the target so as to be able to learn from it.

In fact, given that most FDI by EE firms are in ‘traditional’ industries characterized by mature technology, one could even argue that the search for technology (which may or may not be bought off the shelf) is possibly not of primary importance but rather the underlying management and organizational knowhow and capabilities. In such case, the firm may even end up supporting and investing in the acquired firm so that the rest of the firm can benefit from their superior knowhow. Lenovo and Tata, in their acquisition of IBM’s PC and Ford’s Jaguar and Landrover divisions, are two prominent examples. In such case, rather than a diminished role, the outcome could well be a stronger charter for the acquired firm, which may not be limited just to the local operations but for the rest of the firm worldwide. Moreover, were the EE firm to ‘take over’, this would adversely affect credibility with the local clientele.

There is an additional aspect with respect to acquisitions by EE MNEs. In contrast to their most established competitors, many acquisitions by EE MNEs are executed with the intention to make the firm more competitive not necessarily in the host country but in
the home country, a case of reverse internationalization. Reverse internationalization, or the acquisition of resources in foreign markets for deployment in home markets, can create more value in cross border acquisitions compared to just market seeking motives (Seth, Song, & Pettit, 2002) since, through such internationalization strategies, EE MNE firms could become more competitive both in advanced and emerging economies.

Rather than hunter and hunted therefore, the acquisition is more likely to be seen as a more genuine partnership (Graebner) through which both acquirer and target can prosper because of the motive behind the acquisition. Given that the target potentially plays a prominent knowledge contributing role to the EE enterprise post-acquisition, the employees are more likely to feel valued and respected and with an expectation that there would be significant involvement in the decision making process post-acquisition. In fact, by combining the knowledge and capabilities of the target with lower cost operations and capabilities of the acquirer, the combination could well end up being mutually beneficial, rather than of a more unilateral nature, resulting in both the target and the acquirer becoming more competitive.

Thus, where the purpose is knowledge acquisition and learning, a firm may prefer a carefully targeted acquisition. Of course, acquisitions only offer the potential to enhance the firm’s knowledge base, the realization of which depends on its absorptive capacity. Social relations become important in this regard. Here, the prospect of being in a more genuine partnership rather than a hunt makes the target more receptive, more positively disposed, and more willing to help the EE MNE learn, which enhances the latter’s absorptive capacity further.
Although joint ventures are another possibility, an acquisition offers certain advantages over joint ventures. First, the firm can systematically control transfers of personnel and task redistribution explicitly for the purpose of building absorptive capacity of the acquirer. Bharat Forge of India, now one of the world’s foremost automotive forging firms did exactly that through its German acquisition. A joint venture involves a separate firm which is partially cordoned away from the parent and additionally, with shared ownership, would be comparatively handicapped in this regard. Second, the acquired firm can better help overcome legitimacy and credibility problems, for instance serve as a guarantor of quality and safety standards. Third, and equally important, the greater legitimacy and boost in reputation overseas can increase the EE firm’s standing and market share in own market. Fourth, even though an acquisition is in a foreign market, the target itself is often an international firm with an international customer and supplier base and international distribution channels to which the acquirer gets access.

A third option is licensing. In principle, the EE firm could buy or license the latest technology, especially where it is mature. However, this becomes relevant when the acquirer is primarily searching just for technology rather than the softer benefits discussed above. Besides, there is a big difference between having access to a particular technology and the capacity to absorb it. Moreover, as mentioned earlier, what is needed is not just technology but organization and management, which are tacit in nature, need time to understand and particularly difficult to directly buy, imitate or transfer.

From the above, we can see that acquisitions can be quite valuable in EE firms’ internationalization strategy, with value creation being more strategic and organizational
rather than strictly financial in nature. Overseas direct investment and internationalization through acquisitions helps overcome many of the EE MNE constraints that are rooted in the liability of emergingness and functions as a source of knowledge acquisition and diffusion. Needless to say, to be worthwhile the firms needs to be able to learn through the acquisition without bearing a cost that exhausts the whole gain from improvement. In this regard, Barney (1988) points to an apparent paradox in the attainability of advantage through acquisition of valuable resources. If a valuable resource is attainable for one firm through the market, then it is likely to be attainable for others as well. In such case, the advantages of access to such a resource would be quickly competed away in the process of acquiring it. The only way to attain advantage through such resources would be if it were not so valued by others.

In the case of EE MNEs above, value lies in overcoming the dual liability of foreignness and emergingness and in the contribution made to the capability building process,. Compared to advanced economy competitors, the calculus from an EE firm’s perspective would be different. Since the skills and capabilities that an advanced economy target firm offers an EE firm would clearly not be valued in a similar manner by a firm that already possesses them, the asymmetries between an EE firm and an established firm would arguably result in a value differential due to different starting positions and paths. Consequently, it could be able to acquire it for less than what it might have been willing to pay.5

5 As an aside, the market dominance and rapid growth in the domestic markets of these EE MNEs, as well as membership in family business groups, has also resulted in their having significant financial resources at their disposal for the acquisition.
Learning, catch-up and the EE firm

To recap, given their different starting positions and developmental paths, combined with their being “latecomers” in their internationalization efforts, EE MNEs need to catch up in order to be competitive in the global arena. To do so, they need to learn. We argued that acquisitions play an important role in this regard. In their springboard model, Luo & Tung (2007) point out the learning advantages of the more entrepreneurial and aggressive international expansion style of EE MNEs and argue that aggressive path-independent approaches such as acquisitions allow the firm to take “learning leaps” and break out of the cumulative nature of path-dependent learning.

Because of their starting point, EE MNEs expanding from less developed or lower “knowledge class” countries into more advanced ones usually have a more humble approach to learning, in contrast to a competitor whose learning orientation is shaped by a perception of already possessing superior knowledge. Consequently, EE MNEs are more open to knowledge flowing both ways and, in contrast to their more established competitors, benefit from not being arrogant in their learning orientation (Hamel 1991). This potentially impacts the quality of social relations and the process of knowledge flows between acquirer and target.

To reiterate the essential point, to the extent that EE MNEs are playing competitive catchup through their overseas expansion, the issue is not so much that of market share and other such structural aspects but rather more of learning and knowledge development. From this line of logic, foreign direct investment, especially through acquisitions (but also, more generally, equity investments in other firms) potentially helps
enhance the knowledge base of the firm and its competitive abilities through resource accumulation and capability building, not just in the host country but also at home and elsewhere. Basically, in an entrepreneurial sense, a firm cannot wait to have the needed assets before launching into the international arena, the arena itself is the source of building up these assets and capabilities. However, since firms are essentially constrained by past routines, when past routines pose a challenge in coping with a changing operating context, it becomes imperative to jump in (i.e., into the global arena) and learn to manage, even if it means muddling through. From our argument, acquisitions enable a firm in this process. This line of argument could help explain the recent proclivity to make acquisitions in advanced economies.

From a learning perspective, economic progress is a learning process and firms invest overseas in search of learning opportunities. To catch up competitively, the basic challenge, and the focus of innovation in catching up, is to learn to master new ways of doing things (Nelson 2008). In our context, these may well be new for the EE MNE firm, even if not so for the advanced economy MNEs. Importantly, 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 (Nelson 2008). Here, like the exploration-exploitation argument, acquisition without assimilation would tend to result in low returns.

Through their acquisitions, firms are making investments in competitive catch-up through enhancing their knowledge base and absorptive capacity, and not necessarily to be on the competitive frontier or leading edge. Since EEMNEs often lack recognition overseas, they compete primarily on cost and price. The challenge becomes to move up the value curve. This is where competitive catch-up becomes relevant. The issue is not
that a firm has to be at the technological leading edge so much as to offer a more competitive value proposition. To the extent that EEMNEs are laggards, they may initially be far behind the value frontier in global competition. This is where capability upgrading and competitive catch-up becomes important. As the firm builds up absorptive capacity and improves its capabilities, so long as the firm’s movement towards the frontier is faster that the outward movement of the frontier itself and faster than the increase in costs, it starts moving closer to the competitive frontier and begins to competitively catch up. Thus, outward foreign direct investments for learning and absorptive capacity in combination with the presence of certain cost management advantages, stemming from its origins in low-income and resource poor environments, begins to offer a better value proposition. In fact, the combination can become particularly effective when they meet their advanced economy counterparts in third countries lower down the technological ladder.

**Challenging the conventional wisdom: TOWARDS A ‘NEW’ ASYMMETRY-BASED PERSPECTIVE ON FIRM INTERNATIONALIZATION**

The speed, scope and means of internationalization by EE MNEs raise questions about extant theories. Conventional thinking on ‘emergingness’ treats it as a liability, with the implication that EE firms, with their inferior resources and capabilities, cannot really compete with advanced economy firms due to the liability of emergingness, except at home where familiarity blunts the negative impact of the liability and foreign competitors suffer from the liability of foreignness. This is why the surprise (and even admiration) at the sudden emergence of these firms onto the global arena in recent years. Clearly, new explanations are needed. Whereas extant theory assumes a firm specific
advantage that propels firms to go overseas and that enables them to overcome the liability of foreignness, yet EE MNEs seem to be relentlessly increasing their international presence but do not seem to possess any obvious firm specific advantages in advanced economy markets.

Theoretically, many questions arise, such as: How much can we apply knowledge from extant MNE theory to the MNEs from EEs, which may not only not possess an ownership advantage but where, additionally, the liability of foreignness is exacerbated by a liability of origin? What can the evidence from EEs offer to enhance extant MNE theories? Is a firm-specific advantage a necessary pre-condition for firms to invest abroad and, relatedly, is the exploitation of the existing ownership advantage the sole motive for firms to invest abroad? Moreover, is the firm advantage solely created in a leading-edge (advanced economy) market and, relatedly, do such advantages reside solely within the boundary of a stand-alone firm? In fact, one could even go so far as to ask whether extant theory on internationalization even asks the right questions: for instance, how do or how can latecomer MNEs achieve their initial competitive advantages, or how do or can the latecomers from the EEs catch up and compete with the MNE early movers from the developed countries?

Arguably, by limiting oneself to conventional theory, we fall into the trap of applying well-accepted tools and concepts to phenomena that might actually be different. First, conventional theories underlying firm internationalization assume an existing firm specific advantage for the MNE over the host country firm, resulting in competitive asymmetry. However, if as we argued the EE MNE frequently or even typically does not have such an advantage in the first place, one can pose the following basic question: Does
advantage lead to asymmetry or can firms identify and build upon asymmetry to ultimately create advantage, as Miller (2003) pointed out? From this point of view, internationalization by EE firms could be motivated by the creation of competitive advantage through building on asymmetries and combining this with complementary resource acquisition and capability development. We have argued that acquisition is one avenue to attain this.

As already pointed out earlier, from the dynamic capabilities perspective, the starting point and development path is quite different for EE MNEs. Path-dependent logic would suggest that, given unequal resources of the traditional kind (i.e., technology or brand), for EE MNEs to compete with their advanced economy rivals on their turf and on their terms (i.e. with technology or brand) would be an unintelligent use of resources since, besides being a too daunting task, it does not take advantage of their own unique experiences which stem from their origins and are rooted in the liability of emergingness. Rather than seek competitive parity or advantage by trying to attain similar assets or advantages, the more relevant question becomes one of how they can take advantage of and build up on what they do have.

In other words, rather than focus on what they do not possess, the question and challenge becomes how to convert what they do possess into an advantage. Existing international business theories are unable to convincingly address this issue since, with their assumption of an existing advantage where firm resources have to start off being
valuable *prior* to internationalizing, they were not designed to do so\(^6\). Even when they address internationalization for exploration or asset seeking purposes, the purpose is to strengthen an existing advantage. A different conceptualization of strategizing, rooted in Austrian notions of entrepreneurship (Kirzner 1993) and more dynamic and improvisational in nature, provides greater scope to address the EE MNE phenomenon.

In the Austrian perspective, firms need to be entrepreneurial in their approach, not in the Schumpeterian sense of radical innovation, but more in the Kirtznerian sense of being alert to opportunities and seizing them as they arise (Kirzner 1993). From this logic, an alternative conceptualization of strategizing is put forward, where 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 (Mathews SO). There are two aspects here, with strategizing about how to acquire the needed resources being only a first step. In the second step, the alert firm recognizes opportunities and then finds a way to realize them through a skilful combination of its own and others’ resources.

The argument above suggests that, 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*. In this regard, Bingham and Eisenhardt (MDE 2008) argue that competitive advantage can arise from tightly linking often ordinary resources and leveraging these

\[^6\] Of course, we do not aim to suggest that emerging multinationals do not or can not start off with valuable resources. However, we intend to broaden the scope of search for the sources of EE MNE advantage to include all asymmetries.
with different complementary resources through loosely linked and “semi-structured organizational processes composed of simple rules to capture fleeting market opportunities”. In support of this argument, Newbert (2008) found that it is the manner by which [potentially valuable, though perhaps] common resources and capabilities are combined that enables a firm to attain a competitive advantage [CHECK]. Differently put, it is not the uniqueness and novelty of the resources but the novel ways in which firms combine those resources and capabilities they possess and to which they have access that is critical.

Thus, 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. Ordinary resources, when combined skilfully with other resources, can then ultimately become the source of competitive advantage. In the context of the Kirznerian argument above, the proposed framework represents a rather entrepreneurial approach to internationalization to the extent that it involves the pursuit of opportunity “without regard to the resources currently controlled” (Stevenson & Jarillo, 1990). Acquisitions are one important, though not the only, aspect of the pursuit of such opportunities.

To sum up, in contrast to extant theories that focus on advantage as a starting point, we propose a somewhat different argument. First, we suggest that a focus on something other than just exploring and exploiting advantageous resources may add to our understanding of the international expansion and internationalization patterns of EE MNEs through acquisitions. Here, we focus on the asymmetries of emerging multinationals due to different starting points and initial paths and positions.
Asymmetries between EE MNEs and those from advanced economies are present because of their formative and dominant experiences in different institutional environments, which may require them to face different kinds of problems and thus innovate in different ways as they seek relevant solutions. As a result many emerging multinationals have demonstrated unprecedented productivity in seemingly adverse circumstances, efficient business models and “frugal engineering” capabilities to accommodate the needs of cost-savvy customers (Sirkin et al, 2008).

Conceptualized differently, once could even identify what can be considered as an ‘asset of emergingness’ to counterbalance the liability. Due to their background, EE firms are compelled to be more entrepreneurial in their approach and develop ‘chutzpah’, quickness, ability to improvise and ability to squeeze the most out of adverse circumstances (Sirkin et al 2008). In contrast, an earlier and different starting point for the more established competitors can result not only in their not possessing these qualities to the same extent but also in rigidities linked to both legacy costs and routines, causing the incumbents to devalue new or different approaches or leaving them too inflexible to pursue them (Bartlett and Ghoshal). This fosters a greater readiness in the former for the Austrian kind of entrepreneurship, which places a premium on flexibility and agility at learning when they internationalize.

Although traditional treatment of absorptive capacity emphasizes the ability to learn, an equally important notion is that of learning agility, which we argue is also an essential but oft-neglected part of absorptive capacity. In turning asymmetries into advantages, the role of absorptive capacity---both learning ability and learning agility---is critically important. The process of converting asymmetries into advantage entails the
following (Miller 2003): First, firms must discover the asymmetries—however minor, however buried, however troubled—and discern the potential within them. Second, they must turn asymmetries into capabilities by strategically embedding them within an organizational design configuration that exploits them and sustains their development. Third, they must match asymmetry-derived capabilities to market opportunities. The three-step process starts with the identification of potential, a transformation of capabilities in order to leverage that potential, and the commercial exploitation of the newly acquired capabilities.

In our argument, acquisitions become an essential part of such an entrepreneurial approach towards internationalization. Of course, this requires firms to be flexible and agile at learning. Along this line of logic, asymmetries that may initially be a source of no value or even negative value (due to the liability of emergingness) to the firm, may eventually prove to be a sources of competitive advantage. This requires the transformation of the very ‘liability of emerging-ness’ into an asset, which requires the firm to be adept at learning, in terms of both learning ability and learning agility. Due to their historical and embedded nature, these asymmetries are not available to advanced economy firms nor can they be copied. While such asymmetries, if consider as market-based assets, are not firm specific in nature in that they may be common to EE MNEs, the process of converting asymmetry to advantage becomes firm specific.

Extant theory, in assuming an existing advantage to compensate for the liability of foreignness struggles to explain the recent wave of acquisitions by EE MNEs. In fact, notwithstanding their insights, when it comes to the internationalization of firms from emerging markets, the models proposed by previous international business literature,
including those that address learning such as Johanssen and Vahlne (1977), do not directly address the crucial factor of absorptive capacity. Even in Mathews’ linkage-leverage-learning framework, the focus is on how resource-poor firms can penetrate international markets by leveraging knowledge generated through linkages with other firms, etc and less about absorptive capacity as a strategic investment.

Conclusion

Theories dealing with acquisitions in the international domain tend to be focused more on issues to do with shaping structure (Caves 1986). Although significant, this may be much more relevant to large and more established MNEs from advanced economies. Other arguments assessing acquisitions have utilized a transaction cost logic, e.g. choice of acquisitions versus greenfields (Hennart). However, they have struggled with both their explanation as well as consistency in empirical outcomes, arguably because both are forms of hierarchy whereas transaction cost theory is in principle more applicable to hierarchical governance in contrast to other non-hierarchical forms.

In our paper we have taken a different stance and emphasized the following: First, explaining EE MNE direct investments into the advanced economies requires a departure from established concepts. Second, acquisitions play an important role in competitive catch-up. The key to understanding the behavior of EE MNEs lies is integrating outward internationalization activities in host countries with current resources and capabilities as well as opportunities in the home country. Third, the combination of asymmetry and absorptive capacity can ultimately result in greater competitiveness. By incorporating
dynamic capability and entrepreneurship arguments, we provide a distinct perspective toward explaining the internationalization of EE MNEs.