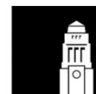

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Cross-border Acquisitions by Indian Multinationals: Asset Exploitation or Asset Augmentation?

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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.

Key words: Firm Specific Assets, Asset Augmentation, Cross-Border Acquisitions, India, Multinationals from Emerging Countries, Asset Seeking Foreign Direct Investment

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, internationalization 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 internationalization (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, Hoskinsson, Wright, Filatotchev, 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 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 <u>some</u> 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. 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.

Literature Review

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, 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 specific advantages (Lall, 1983; Lecraw, 1983, 1993; Wells Jr, 1983).

Rugman (2009) argued that EMNEs internationalise by exploiting home CSAs since these firms may not have significant FSAs to assure success in international markets. However, such an argument seems unsatisfactory because internationalisation based on home CSAs, available to all firms located in that source country, may not be sustainable (Lessard & Lucea, 2009; Ramamurti, 2012). This is where the bundling of assets argument becomes important, as an explanation of why some emerging country firms can transform CSAs into FSAs.

Internationalisation for Asset Augmentation

Many other studies (for example, Anand & Delios, 2002; Child & Rodrigues, 2005; Isobe et al., 2000; Mathews, 2006) argue that in order to compensate for deficiencies in resources required for building competitiveness in foreign markets, the EMNE seeks strategic assets. “An acquisition can be seen as the purchase of a bundle of resources in a highly imperfect market”, through which the acquiring firm ceteris paribus can boost its growth (Wernerfelt, 1984, p. 172). Dunning (1998; 2006, p.1) also acknowledged that EMNEs are often prompted to acquire businesses, “in more advanced countries to access or augment, rather than to exploit their ownership advantages”, with an aim to enhance capability, to acquire knowledge and resources.

EMNEs use internationalisation as a “springboard” in the trajectory of growth by “acquiring foreign companies or their subunits that possess knowledge-based assets, such as sophisticated technologies or advanced manufacturing know-how” (Luo & Tung, 2007, p.485). The motive of acquisition is to build competitive advantages within the acquiring firm. MNEs from the ‘Newly Industrialized Countries’ (NIC) also followed asset augmentation strategies in their internationalization during the 1980’s (Makino, Lau, & Yeh, 2002; Mathews, 2006).

Acquisitions are generally undertaken for the purpose of acquiring technology (Mutinelli & Piscitello, 1998), strategic resources (Deng, 2009), and globally known brands (Sauvant, 2005). As stated earlier, the EMNE is deficient in such strategic assets and capabilities since these are not generally available in their developing home markets which are typically characterised by surplus labour, lower operating costs, and large unsaturated markets (Lecraw, 1983; Wells Jr,

1983).

We argue that the above-mentioned economic conditions at home offer opportunities to grow and develop FSAs, for example lower operating cost and large unsaturated markets allow local firms to earn rents by serving the home market. The EMNE utilises its domestically developed FSAs to acquire strategic assets, including knowledge-based resources and globally known brands to catch-up and become an internationally competitive and known firm.

Acquisition of foreign firms, to seek strategic assets, is a preferred strategy amongst EMNEs because they originate in an economy that has limited availability of such assets at home. Thus, internationalisation of the EMNE is not triggered by push factors but by pull factors, such as a desire to acquire advanced technology and managerial skills (Luo & Tung, 2007). As a result, acquisitions from emerging economies, Brazil, Russia, India and China (also called BRIC countries), targeted towards developed countries are significant (KPMG, 2012; Stucchi, 2012).

Acquisition of strategic assets by EMNEs allows them to leapfrog and establish rapidly in globally competitive industries (Athreye & Kapur, 2009; Mathews, 2002b). Sometimes the strategic assets and capabilities required by EMNEs are not available through market transactions (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2009). Thus, for many EMNEs acquisition is the preferred route for augmenting strategic assets.

We argue that recent developments in the extant literature present various explanations for the asset augmentation strategies of the EMNE but do not offer a plausible explanation as to what types of ownership advantages are possessed by the EMNE that enable it to undertake an acquisition in the first place. As it is difficult to internationalise in the absence of competitive advantages, the literature presents a ‘chicken or egg’ puzzle.

In recent years EMNEs have grown strongly in both number and size. The number of EMNEs in the Global 500 list has doubled in the last few years and the capitalisation of many EMNEs runs into billions of dollars (PWC, 2010). Ramamurti (2009a; 2012, p.42) argues that it is not plausible that EMNEs will “have market capitalisations of tens of billions of dollars” without having ownership advantages. Thus, the EMNE is likely to possess ownership advantages of

some kind that may be different from the typical ownership advantages possessed by so-called "first world" MNEs. This view is also supported by Dunning, Kim and Park (2008).

Development of Hypotheses

In the context of Indian MNEs, we argue that they possess firm specific ownership advantages that are an outcome of imperfections in the home economy. Market imperfections can provide significant opportunities for the creation of novel technologies and business models (Cohen & Winn, 2007). The preponderance of business groups and family firms in emerging economies is largely attributed to high degrees of market imperfection and the existence of institutional voids (Khanna & Palepu, 1999, 2000, 2005, 2010; Meyer et al., 2009; Peng, 2003). Furthermore, protectionist policies and a slow pace of liberalisation in the home economy provide growth opportunities to domestic firms able to serve a large unsaturated domestic market (Munjal et al., 2013). These arguments are developed in the several hypotheses that are presented in the later part of this section where our basic premise remains that EMNEs may possess FSAs that enable them to undertake acquisitions. FSAs emerge out of different kinds of resources available to the firm (Barney, 1991; Daft, 1983; Luo, 2000; Sun, Peng, Ren, & Yan, 2012). These resources could be tangible or intangible, such as of financial resources, managerial resources, marketing resources, technological resources, or ownership by conglomerate business group (Dunning, 1988). Using these different types of resources identified in the extant literature we build six hypotheses, the first five of which represent the resource base of the firm, including its membership (usually leadership) of a business group, and the last hypothesis covers the asset augmentation motive.

Financial resources

Ownership of financial resources is critical for the firm's growth (Doukas & Lang, 2003). Finance is the most flexible resource a firm can possess. A financially rich firm has a high degree of freedom in exploiting opportunities for growth (Ito & Rose, 2002). A firm possessing financial resources can build competitive advantages; for instance, by spending on research and development, marketing campaigns, and recruiting skilled human resources.

Finance can be raised externally from the capital market or internally from operations. External financing is associated with cost and redemption constraints attached to it, while finance from internally generated profits are free of such costs and redemption constraints (Jensen, 1986). Further, the corporate finance literature suggests that low leveraged firms are usually associated with higher profits and financial surpluses (Baker, 1973)

Thus, a profitable firm that generates financial resources internally is likely to benefit in its internationalisation plans. Internal financing gives more freedom to the firm to undertake riskier projects in foreign markets. Indian MNEs are considered to have low debt levels (Kumar, 2010; Staney, Ramarathinam, & Bhoir, 2008), and to be cash rich (Knowledge@Wharton, 2006). It is reasonable to expect that the internationalisation of Indian MNEs will be positively influenced by the availability of the firm's own financial resources.

The hypothesis stated below is fundamentally derived from internalisation theory (Buckley & Casson, 1976). Imperfections in external markets and their substitution by the internal allocation of capital (including across business groups) lead to the ability to invest abroad.

> **Hypothesis 1**: Cross-border acquisitions by Indian MNEs are positively related to the firm's own financial resources.

Technological resources

Technological resources are generally referred to as technological assets, such as technical know-how, patents, and designs. A firm may generate technological resources by engaging in research and development (Caves, 1971, 2007; Martin & Salomon, 2003). Technological resources help the firm to upgrade products, improve operational efficiency, and develop innovative capabilities (Knight & Cavusgil, 2004). They may also enhance the firm's internationalisation and performance; for example, a firm which has produced an innovative product may undertake export or FDI to maximise revenue streams (Kafouros, 2008; Tsang, Yip, & Toh, 2008).

The firm can augment the technological assets it lacks (Luo & Tung, 2007) but to benefit from acquired technology it must have absorptive capacity. Technological resources also represent the

firm's absorptive capacity, i.e. the firm' s own capabilities which enable it to integrate external technological assets into its operations (Cohen & Levinthal, 1990).

Chittoor, Sarkar, Ray, & Aulakh (2009) argue that Indian MNEs possess essential absorptive capacity. The research and innovation capacity available in India (Contractor, Kumar, Kundu, & Pedersen, 2010) is supported by the availability of skilled human resources in some sectors (Forbes, 2002; Kapur & Ramamurti, 2001), capabilities of engineering and adopting existing technology, excellent infrastructure, such as availability of US FDA approved labs, and positive changes in the domestic regulatory institutional landscape (Athreye & Godley, 2009; Athreye & Kapur, 2009). Thus, it is anticipated that Indian MNEs have technological resources that can facilitate the firm's internationalisation. Hence, the hypothesis is:

> **Hypothesis 2**: Cross-border acquisitions by Indian MNEs are positively related to the firm's own technological resources.

Managerial resources

Managerial and entrepreneurial abilities are key factors in the internationalisation of a firm (Buckley, 1996; Ibeh, 2004). International entrepreneurship is often driven by high levels of managerial skills and research (Crick & Jones, 2000). Ibeh (2004, p. 94) highlights the importance of managerial and entrepreneurial resources for the MNE originating from developing countries by suggesting that good decision makers could lead the firm to "procure and develop other advantage-creating competencies" that can enhance the firm's prospects for internationalisation. Furthermore, managerial experience facilitates the entrepreneurial decision to internationalise.

Though internationalisation strategies devised by the entrepreneur are influenced by the resources available to the firm (Andersson, 2000), an effective manager seeks to make the best use of resources available to the firm through efficient utilisation and appropriate allocation. In this process, the development of bundling the necessary assets together is crucial. This skill is transferable internationally.

Emerging economies are typically characterised by weak human and entrepreneurial resources (Khanna & Palepu, 2000; Meyer et al., 2009; Peng, 2003). It is also argued that EMNEs usually

operate in low value adding activities because of their shortage of technological and managerial capabilities (Bartlett & Ghoshal, 2000). However, in recent years some Indian MNEs are competing successfully in dynamic modern technology-intensive industries. In a recent study, Chittoor, Aulakh, and Ray (2015) reported that foreign education and experience of Chief Operating Officers of Indian MNEs have enabled them to undertake acquisitions of foreign firms. It is further argued that Indian managers and entrepreneurs have the ability to deliver "value for money" and the skills to succeed despite India's geographic and cultural diversity (Kumar, 2008, p. 251) and that this is an important internationally transferable skill. Thus it is hypothesised that:

> **Hypothesis 3**: Cross-border acquisitions by Indian MNEs are positively related to the managerial resources of the firm.

Marketing resources

Marketing resources are used to build brand reputation, customer loyalty, market orientation, and product differentiation (Hooley, Greenley, Cadogan, & Fahy, 2005). They also help in the firm's internationalisation (Erramilli, Agarwal, & Kim, 1997; Kotabe, Srinivasan, & Aulakh, 2002). The impact of marketing resources on internationalisation has become more important with recent technological advancements, increasing levels of globalisation, and market integration across countries and regions (Chung, 2003).

Furthermore, strong marketing campaigns may also help the firm to establish its brand in a foreign market. An internationally recognised brand often acts as a vehicle for further internationalisation of the firm when the firm can transfer its known brand from one market to another (Douglas, Craig, & Nijssen, 2001). Conventional internationalisation wisdom further suggests that the market experience gained in a foreign market also helps the firm to further internationalise (Eriksson, Johanson, Majkgard, & Sharma, 1997; Johanson & Vahlne, 1977).

Marketing resources enable the MNE to cope with the pressures for localisation (Bartlett & Ghoshal, 1989) and overcome the liabilities of foreignness (Zaheer, 1995), for instance by undertaking product adaptation. Indian MNEs experience of operating in a multicultural setting

at home provides them with marketing capability that is valuable in foreign markets (Kumar, 2008). Thus, it can be hypothesised that:

> **Hypothesis 4**: Cross-border acquisitions by Indian MNEs are positively related to the firm's own marketing resources.

Business group affiliation

A business group or enterprise group is a diversified enterprise generally owned and managed by a family. Business groups are normally considered as a pool of resources which can promote internationalisation of the affiliated firms (Yiu, Bruton, & Lu, 2005). Business groups provide an internal financial market (in principle) to channel capital to those parts of the group able to marshal the resources to expand aboard. It can also transfer other resources internally, such as knowledge, needed to operate internationally. The literature indicates that a firm may internationalise by leveraging group resources (Douma, George, & Kabir, 2006; Guillén, 2003; Tan & Meyer, 2010; Yiu et al., 2005).

Besides the potential pool of resources, synergy between different subsidiaries of a business group can facilitate internationalisation of the firm; for instance, there are strong synergies between some subsidiaries of the Tata group (for details see, Mukherjee & Radhakrishnan, 2002). Business groups are dominant in many emerging economies (Tan & Meyer, 2010). Research finds that the emergence of business groups is related to market imperfections and other institutional characteristics of a country (Khanna & Palepu, 1999; Peng & Heath, 1996). In India, various business groups are active including the Tata group. Most Indian business groups are diversified across various industries and highly internationalised at the same time; for example, the Tata group operates in 28 industries with a presence in about 80 countries (Tata, 2012). Therefore, it is hypothesised that:

> **Hypothesis 5**: Cross-border acquisitions by Indian MNEs are positively related to the firm's affiliation to a business group.

Asset augmentation and EMNEs' internationalisation

In contrast to the asset exploitation view, the internationalisation of multinationals from emerging economies is viewed as a strategy for augmenting resources and assets (Luo & Tung, 2007; Yiu, Lau, & Bruton, 2007). Ramamurti (2009b) suggests that acquisition is an appropriate and popular strategy for asset augmentation activities particularly among EMNEs acquiring technological know-how (Yeoh, 2011) because acquisitions can provide full control and ownership of strategic assets (Barney, 1991, 1996; Dunning & Lundan, 2008). Buckley, Clegg and Tan (2003, p. 67) argued that ownership based entry strategy binds "foreign firms into constraints" which ensures transfer of technological know-how. Internalisation theory (Buckley & Casson, 1976) emphasises the role of ownership based control in FDI decisions. Furthermore, strategic assets are often not available through market transactions because of embeddedness in firms (Gubbi et al., 2009).

The move to acquire strategic assets allows the EMNE to leapfrog competition and establish rapidly in the global market (Athreye & Godley, 2009; Mathews, 2002a). This further enables EMNEs to geographically disperse their production units and laboratories in ways that can increase the likelihood of generating knowledge-based competitive advantages (Pearce, 1999). Luo and Tung (2007, p. 485) further argue that the EMNE uses internationalisation as a "springboard" in its growth trajectory by "acquiring foreign companies or their subunits that possess knowledge-based assets, such as sophisticated technologies or advanced manufacturing know-how".

During the1980's many MNEs from the 'Newly Industrialised Countries'; for example Samsung, LG, and Haier, followed asset augmentation strategies to leapfrog the competition (Makino et al., 2002). Today these multinationals are able to compete successfully with traditional MNEs (Mathews, 2006). Like other EMNEs, Indian MNEs are also actively seeking different types of strategic assets from foreign markets. Buckley, Enderwick, Forsans, & Munjal (2011), Sauvant (2005) and Kumar (2008) argue that Indian MNEs are actively seeking technology and brands aboard. The acquisition of Land Rover and Jaguar (in the UK) by Tata Motors and the acquisition of Tetley tea (in the UK) and Eight O'clock coffee (in the USA) by Tata Beverages are classic examples of acquisitions by Indian MNEs seeking technological and market based strategic assets. Thus, it is hypothesised that:

Hypothesis 6: Cross-border acquisitions by Indian MNEs are positively related to the asset augmentation activities of the firm.

Research Methods

Data for this study was taken from two different sources- Thomson One Banker (TOB) and Prowess. TOB provides data on foreign acquisitions while Prowess provides the supplementary financial information for firms engaged in making foreign acquisitions. Where TOB covers the entire population of Indian firms making foreign acquisitions, Prowess provides extensive financial and background information on the firm. Both the Thomson One Banker and Prowess databases are widely used in the IB literature. Prowess is considered substantially richer than other global corporate databases, such as Worldscope (Oura et al., 2009).

TOB provides data on foreign acquisitions which consists of both Indian companies and non-Indian firms (Indian subsidiaries of foreign MNEs) making foreign acquisitions from India. Acquiring firms were identified by name across the two databases to match the dependent and independent variables. For the purpose of this study we identified and separated the cases of Indian MNEs making foreign acquisitions. Hence, our dependent variable here is foreign acquisitions made by Indian MNEs measured by the value of acquisitions and the number of acquisitions. Thus, we have two dependent variables, to be explained by a set of FSAs and the motive for acquisition. Our models are follows, which are explained below:

$$VFA_{it} = a + b_1FR_{it} + b_2TI_{it} + b_3MI_{it} + b_4MS_{it} + b_5GroupD_{it} + b_6AA_{it} + b_7FDI_{it} + b_8IT_{it} + b_9SIZE_{it} + b_{10}AGE_{it} + b_{11}TimeD + b_{12}IndD + u_{it} \quad (1)$$

$$NFA_{it} = a + b_1FR_{it} + b_2TI_{it} + b_3MI_{it} + b_4MS_{it} + b_5GroupD_{it} + b_6AA_{it} + b_7FDIExp_{it} + b_8IT_{it} + b_9SIZE_{it} + b_{10}AGE_{it} + b_{11}TimeD + b_{12}IndD + u_{it} \quad (2)$$

$$NFA_{it} = \exp(a + b_1FR_{it} + b_2TI_{it} + b_3MI_{it} + b_4MS_{it} + b_5GroupD_{it} + b_6AA_{it} + b_7FDIExp_{it} + b_8IT_{it} + b_9SIZE_{it} + b_{10}AGE_{it} + b_{11}TimeD + b_{12}IndD + u_{it}) \quad (3)$$

Where, VFA_{it} is value of foreign acquisitions by ith firm in t time and NFA_{it} is number (count) of foreign acquisitions by ith firm in t time; FR_{it} is financial resources of ith firm in t time; TI_{it} is technological intensity of ith firm in t time; MI_{it} stands for marketing intensity of ith firm in t time ; MS_{it} stands for managerial skills of ith firm in t time; $GroupD_{it}$ represents a dummy variable for group affiliation for ith firm in t time (which takes value 1 if the firm belongs to a group, else 0); IT_{it} represents international trade of the ith firm in t time; FDI_{it} represents FDI stock of the ith firm in t time; AA_{it} represents a dummy variable for motive of strategic asset augmentation of ith firm in t time (which takes value 1 if the firm makes acquisition for seeking strategic assets, else 0); $SIZE_{it}$ is a variable controlling the size of the ith firm in t time; AGE_{it} is another control representing age of ith firm in t time; TimeD represent Time Dummy (takes value 1 for the year to be controlled, else 0); IndD represent Industry Dummy; and finally, u_{it} is a stochastic random error for ith firm in t time; a, b_1, $b_{2,}$ $b_{3,...}$ b_{11} are the usual regression coefficients.

We control for firm and time heterogeneity. Firm heterogeneity is controlled through age and size of the firm; both are standard controls and have been previously used in similar studies. We controlled for industry effects by incorporating industry dummies (IndD). For industry classification we used the OECD's International Standard Industry Classification (ISIC) REV. 3. We extend this control by incorporating the international business network and experience of the firm through international trade, and existing overseas investment, because these are likely to influence the internationalisation of the firm (Johanson & Mattson, 1988; Johanson & Vahlne, 1977, 2009). The measures used to proxy independent variables are provided in Table 1.

*******Insert Table 1 here*******

The effect of time is controlled by incorporating time dummies for each year under study. Control for the time effect was necessary because: 1) the acquisitions are on a rising trend; and 2) various changes that occurred over time may have impacted the firm's acquisition capabilities. For example, gradual changes in the overseas investment policies of India are likely to have an

affect on acquisitions made by Indian MNEs. Controlling for time effects automatically controls for all time related changes. Figure 1 gives the conceptual framework.

*******Insert Figure 1 here*******

According to the dataset complied from TOB, during 2000 to 2007, 315 Indian multinational firms made 623 acquisitions in 70 countries valued at about US$ 48.55 billion. We accumulated the acquisitions made by these 315 firms by year and created a pooled data set. Generally, acquisition is not a regular activity for the firm. Foreign acquisitions are usually made once every few years, in our data sample the average acquisition by a firm is about 2 (623 acquisition by 315 firms) over an 8 year period. This kind of dispersion in the data is not best captured by panel data estimation techniques, such as the random effects, because panel data estimation procedures assume both cross-sectional and time series relationships within the data. In this situation, the best estimation technique for our data set is pooled OLS (POLS). However, for comparison we also run random effect regression[i] and found that the pooled OLS estimations were more efficient than panel data estimates. We further use negative binomial regression to estimate the number of acquisitions because it is a discrete variable. Our POLS models are expressed in equation 1 and 2 and negative binomial regression is expressed in equation 3 above.

Results and Discussion

The POLS estimates, correlation matrix and descriptive statistics of dependent and independent variables are presented in Tables 2 and 3. It can be seen from Table 2 that results for two regression models used to test the hypotheses are consistent and robust. It can be noted that regressions models fits well with the data as the Chi Square and the F test statistics are all significant at 1% level of significance. Our hypotheses 1, 2 and 6 are fully supported and hypothesis 3 is tentatively supported, but hypotheses 4 and 5 are not supported.

*******Insert Tables 2 and 3 here*******

These results suggest that financial resources support the foreign acquisitions made by EMNEs (Hypothesis 1). Indian MNEs are able to undertake foreign acquisitions because they accumulate their own financial resources and often enjoy low debt levels, high profitability and

strong cash flows (Knowledge@Wharton, 2006). In a globalising world, many opportunities arise where investment can be made from the home economy and a firm that has its own financial resources can exploit such opportunities promptly by undertaking outward FDI.

Mathews (2006) sees EMNEs as 'latecomers' in the world economy due to the recent liberalisation of their home economies. Until these economies followed liberalisation policies, their EMNEs did not face much international competition at home. This suggests that, as a result, these EMNEs could not build or accumulate FSAs that can provide them with global competitiveness. However, the protectionist policies followed at home (before liberalisation) allowed the EMNE to serve their domestic markets in a monopolistic way. Typically, emerging markets, such as Brazil, India, Russia and China, have large domestic markets. As a result of servicing large domestic markets, most of these EMNEs have grown at home and accumulated the necessary financial resources required for making foreign acquisitions. In some cases, these firms have also emerged as conglomerate business groups by internalising markets (Khanna & Palepu, 1999; Khanna, Palepu, & Sinha, 2005) so that an internal financial market is potentially available to their subsidiaries. Thus, many of these firms have acquired financial resources generated from their domestic operations but still lack the competitive advantages in marketing, managerial skills and technological know-how which are pursued through acquisition of foreign MNEs.

In line with earlier research (such as, Chen, Chen, & Ku, 2004; Elango & Pattnaik, 2007; Yiu et al., 2007), this study tested managerial (Hypothesis 3) and marketing resources (Hypothesis 4) as sources of competitive advantages. Managerial skills show tentative significance. We argue that Indian MNEs have some degree of managerial skills that enable them to expand internationally. This may be the result of Indian managers' vast experience of managing within a diverse home country (Kumar, 2008) and foreign education and experience of working abroad (Chittoor et al., 2015). We acknowledge that our measurement for managerial skills is based on manager's salary. It does not cover managers' experience and education as used in other studies. However, it seems that the managerial salary accounts for the variation in managerial skills arising due to experience and foreign education.

Our tests did not capture the significance of marketing resources. This indicates that Indian MNEs may not have marketing resources that can support their internationalisation. This is

consistent with Madhok & Keyhani's (2012) view that EMNEs do not possess resources such as globally recognised brands that "underpin a monopolistic firm-specific advantage" and "that have traditionally been considered as the source of extraordinary rents". However, they do have internalised skills that enable them to realise benefits from the integration of foreign assets.

Hypothesis 6 on strategic asset augmentation is supported with the expected positive sign. In this study, strategic assets represent marketing and technological assets. Thus, the significance of hypothesis 6 supports the view that Indian MNEs seek to acquire marketing and technological assets by acquiring companies abroad.

Post-independence Indian MNEs were not allowed to import technology (Desai, 1972), a factor that restricted the modernisation of Indian MNEs. Further, protection during the post-independence period also constrained the ability of Indian MNEs to develop globally known brands. In the post liberalisation period, when Indian MNEs are allowed to invest overseas, strategic asset seeking FDI seems to be used to overcome deficiencies in technological and marketing assets. The rising number of acquisitions targeting the industrially advanced economies also indicates that Indian MNEs are seeking marketing and technological strategic assets that are usually found in developed countries (Athreye & Kapur, 2009; Buckley, Forsans, & Munjal, 2012; Ramamurti & Singh, 2009).

Earlier research suggests that strategic assets, such as foreign technological assets improve performance, competitive advantage and internationalisation of the firm (Kafouros, Buckley, Sharp, & Wang, 2008; Tsang et al., 2008) which seems to be the rationale for acquiring such assets by EMNEs. Augmentation of strategic assets through foreign acquisitions is of particular importance for the EMNE's internationalisation because such assets are generally not found in the EMNE's home country. Therefore it can be concluded that FDI by Indian MNEs is influenced by country of origin effect (Duysters et al., 2009; Wang et al., 2009).

Foreign knowledge is a key success factor in the internationalisation of Indian firms in many knowledge intensive industries, such as information technology, pharmaceuticals, automobiles and telecommunications. There are several examples where acquisition is undertaken to augment strategic assets; for instance, Wockhardt, a leading Indian pharmaceutical firm bought Rhein Biotech, a German firm, to acquire the technological capabilities it needed to be successful in

the global pharmaceutical industry (Athreye & Godley, 2009; Stucchi, 2012). Augmentation of strategic assets, such as technology, research and development skills, and international brands through acquisition, is not only a faster route to build competitive advantages (Barkema & Vermeulen, 1998) but "it can also deny them to competitors" (Child & Rodrigues, 2005, p. 392).

Further, acquisitions have given Indian MNEs global status, larger production scale, and capability to build "new competitive advantages" by combining foreign technology with a low cost production base at home (Satyanand & Raghavendran, 2010). Tata and Suzlon are examples of this. Tata Steel, after acquiring Corus, gained significant production capacity and became the fifth largest steel producer (by revenue) in the world (UNCTAD, 2007). Tata Motors, after acquiring Land Rover and Jaguar, is planning to start production of high performance engines in India (ENSEconomicBureau, 2012). Suzlon, after acquiring RE Power and Hansen, has become the fifth largest wind turbine manufacturer in the world and is offering "the most comprehensive product portfolios– ranging from sub-megawatt on-shore turbines at 600 Kilowatts (KW), to the world's largest commercial 6.15 Megawatt (MW) offshore turbine – built on a vertically integrated, low-cost, manufacturing base" (Suzlon, 2012).

However, in order to gain from the foreign technology, the firm must have absorptive capacity (Cohen & Levinthal, 1990; Zahra, Matherne, & Carleton, 2003). Since this study finds support for the firm's own technological resources (Hypothesis 2), it is argued that Indian MNEs may have absorptive capacity, which helps them assimilate foreign technological assets. The significance of the motive to acquire know-how based strategic assets along with the importance of the firm's own technological resources, supports the view that many Indian MNEs augment and exploit foreign know-how along with their own research and development capabilities. This has also resulted in the success of many Indian MNEs in the pharmaceutical industry (for details see, Chittoor et al., 2009; Pradhan & Sahu, 2008).

The acquisition strategies of Indian MNEs seem to be consistent with the strategies of traditional multinational enterprises, which establish foreign subsidiaries to build competitive advantages. For example, in the context of Japanese multinational enterprises, Papanastassiou and Pearce (1994, p.155) found that Japanese MNEs have "established a large number of R&D labs outside Japan which play particular roles in global-innovation strategies". In contrast, Indian MNEs

establish subsidiaries through acquisitions for establishing 'global-production' and 'global-innovation' strategies.

The firm's affiliation to a business group (Hypothesis 5) is found to be insignificant. Though this is not expected, we argue that since business groups are pool of resources (Khanna & Palepu, 2000) and their main role is to channel resources to the firm to aide its internationalisation, it appears that the significance of business groups has been offset by the separate inclusion of resources (financial, technological, managerial and marketing) in the model. Furthermore, in the context of Indian business groups, a study by Gaur and Kumar (2009) indicates that the diversification strategy of a business groups can hold back the international expansion of the firm because the group lacks market expertise and specialisation.

Control variables included firm age, size, and international business experience. Among them, only age of firm and previous OFDI experience are significant. This indicates that younger firms are more inclined to use acquisitions for foreign expansion than older firms. This might be because younger firms have less competitive advantages than older firms and therefore acquisition is a preferred strategy for internationalisation. Learning from previous outward FDI positively affects acquisition activities but previous international trade experience is insignificant.

Summary and Conclusion

This paper analysed the asset exploitation and asset augmentation motives of the EMNE in the context of the growing phenomenon of EMNEs internationalisation through cross-border acquisitions. Taking a sample of acquisitions made by Indian MNEs, it finds support for the conventional asset exploitation perspective. It finds that the financial capabilities and the absorptive capacity of Indian MNEs have enabled them to undertake foreign acquisitions to acquire technology and marketing related strategic assets.

The availability of financial resources to Indian MNEs is an outcome of imperfections in the home economy, such as late liberalization and the large home market size (Munjal et al., 2013), which allowed many Indian MNEs to earn monopolistic rents. Thus, home market conditions shape the FSAs of EMNEs (Elango & Pattnaik, 2007; Tan & Meyer, 2010; Yiu et al., 2007) and

allow the development of bundling skills – some prior to internationalisation.

We also found that Indian MNEs augment foreign technological know-how to supplement their own technological resources (Lall, 1983; Tolentino, 1993). The lack of strong technological resources of Indian MNEs is also an outcome of market imperfections at home (Desai, 1972) which triggers catch-up strategies. Acquisition is an appropriate mode through which EMNEs can augment strategic assets and catch-up mature MNEs because, in many cases, strategic assets such as technology are not available through market transactions (Gubbi et al., 2009; Kumaraswamy, Mudambi, Saranga, & Tripathy, 2012).

The contribution of the paper rests in identifying and resolving the 'chicken or egg puzzle' by untangling the entwined relationships between the asset exploitation and asset augmentation perspectives. It is the firm's own financial resources that support the asset augmentation strategy of the EMNE to build competitive advantages for further internationalisation. Structural imperfections and a large, rapidly growing market at home generate competitive advantages for some EMNEs.

This paper also provides a framework for analysing EMNEs' internationalisation and finds support for Dunning's (2006) argument that asset exploitation and asset augmentation activities can be complementary. It supports the view that no new theory is required for explaining the internationalisation of EMNEs. They are not different from traditional MNEs, since both internationalise by exploiting FSAs and aim to augment the resources they lack (Narula, 2006). This aligns with the view that the MNEs strategies not only exploit existing resources but also aim to develop new ones (Wernerfelt, 1984). Thus, asset augmentation is not a new and unique strategy idiosyncratic to EMNEs.

The contribution of this paper also lies in enlarging the market imperfection perspective (Buckley & Casson, 1976; Caves, 1971; Hymer, 1976) that can also be used to explain asset augmentation strategies. It is imperfections in the home market that provide the core explanation of asset augmentation strategies. In addition, we support Hennart's (2009) view that some firms are capable of transferring latent country specific advantages into firm specific advantages and that they develop bundling skills at home that can enable them to exploit foreign located assets by internalisation and cooperation. Acquisitions are the route to this combination of firm

specific and foreign located assets.

The paper has important implications for managers of EMNEs. It suggests that managers should try to explore grounds for growth within their home economy and take advantage of rapid growth at home before venturing abroad. Furthermore, it suggests that firms need not have variegated competitive advantages. Having just one FSA might be sufficient to venture out - and other strategic assets can then be accumulated by judicious bundling. The first step to successful internationalisation is to recognise the skills already internalised within the firm. The second is to identify and to acquire the necessary complementary skills that the firm needs, at home or abroad.

We acknowledge that though the findings may be generalisable for other emerging economies with a large home market, Indian MNEs could present a special case. Therefore, future research should examine the FSAs of firm's originating from other emerging economies. Finally, qualitative research could also shed more light on some of the findings offered by this study.

Table 1: Independent variables and Data sources

Variable and Proxy	Proxy	Data Source
Financial Resource (FR)	Retained Earnings	Prowess
Technical Intensity (TI)	Ratio of R&D expenditure to sales	
Managerial Skills (MS)	Ratio of managerial salary to sales	
Marketing Intensity (MI)	Ratio of marketing expenditure to sales	
Business Group (GroupD)	Dummy Variable (equal to 1 if firm i is affiliated to a business group and 0 otherwise)	
Strategic Assets Augmentation (AA)	Dummy Variable (equal to 1 if the motive for making acquisition is to acquire strategic asset and 0 otherwise)	Thomson One Banker
Firm Size	Capital of the firm	Prowess
Firm Age	Total years since incorporation	
Previous FDI	Value of FDI	Thomson One Banker
International Trade	Value of foreign trade	

Note: The data on motives of acquisition is coded from the synopsis of acquisition deals given in the Thomson ONE Banker database.

Table 2: Results

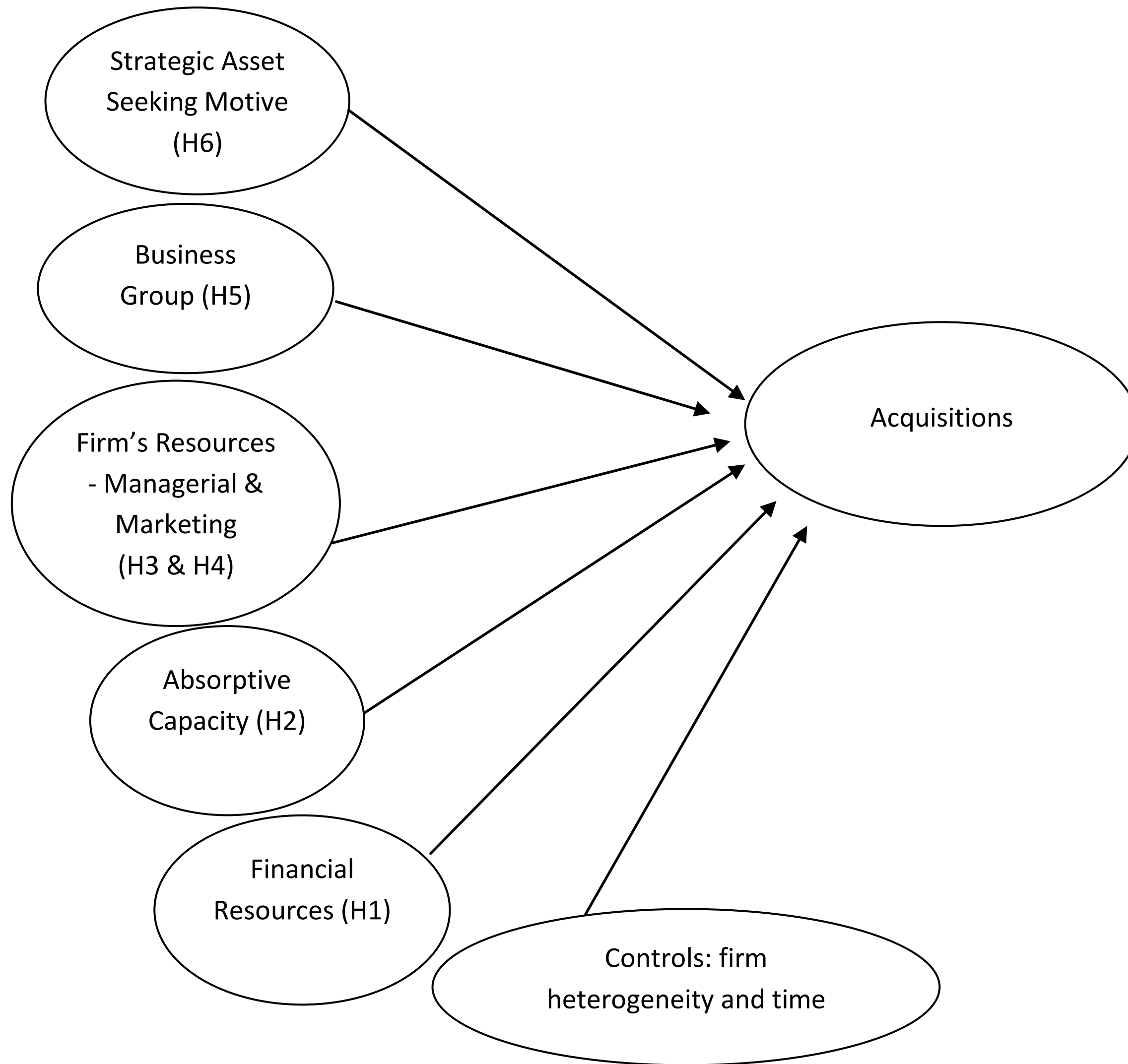
Independent Variables	Coefficients		
	Acquisitions No (Negative Binomial)	**Acquisitions No (POLS)**	**Acquisitions Value (POLS)**
Financial Resources (H1)	0.092** (0.029)	0.014* (0.006)	0.158** (0.053)
Technological Intensity (H2)	3.802* (1.697)	1.73** (0.601)	14.893** (4.895)
Managerial Skills (H3)	0.140 (0.149)	0.00011*** (0.00003)	0.0008*** (0.0002)
Marketing Intensity (H4)	0.00033 (0.0003)	0.00006 (0.0001)	0.0006 (0.001)
Business Group (H5)	-0.135 (0.115)	-0.017 (0.027)	0.13 (0.221)
Strategic Asset Seeking (H6)	0.422*** (0.118)	0.125*** (0.032)	0.78** (0.267)
Firm Age	-0.098 (0.093)	-0.036 (0.023)	-0.396* (0.191)
Firm Size	0.086** (0.032)	0 (0.006)	-0.052 (0.05)
Previous outward FDI	0.016 (0.009)	0.006** (0.002)	0.038 (0.02)
International Trade	0 (0.011)	0 (0.002)	0.037 (0.022)
Time and Industry Control	included	included	included
Constant	-1.179*** (0.328)	0.4955 (0.0841)***	-7.030 (0.685)***
(Pseudo) R Square	01181	0.1279	0.1195
F	-	13.48***	12.47***
LR Chi Sq	332.17***	-	-
Observations	2230	2230	2230

Note: *sig at 0.5; ** sig at.01 and *** sig at .001
Standard Errors are reported in parenthesis

Table 3: Descriptive Statistics

		N	Mean	SD	VIF	Tolerance	1	2	3	4	5	6	7	8	9	10
	NFA	2513	0.24	0.572												
	VFA	2513	19.31	294.55												
1	Firm Age	2513	30.05	19.81	1.41	0.711	1									
2	Capital	2513	76.34	208.98	5.61	0.178	0.152	1								
3	Marketing Intensity	2513	10.11	117.15	1.02	0.984	-0.031	0.007	1							
4	Technology Intensity	2513	0.61	2.029	1.16	0.865	0.004	-0.041	-0.010	1						
5	Financial Resources	2230	119.21	562.73	7.06	0.141	0.181	0.646	-0.005	-0.015	1					
6	Int'l Trade	2513	251.52	1622.92	2.22	0.450	0.071	0.311	-0.009	0.021	0.633	1				
7	Business group	2513	0.64	0.47	1.28	0.781	0.275	0.222	0.040	0.036	0.135	0.075	1			
8	Managerial Skills	2513	0.59	2.66	1.21	0.826	0.094	0.211	-0.004	0.148	0.415	0.584	0.111	1		
9	Previous outward FDI	2513	78.23	459.43	1.71	0.585	0.184	0.238	-0.008	0.034	0.248	0.060	0.113	0.018	1	
10	Strategic Asset Seeking	2513	0.19	0.39	1.33	0.752	0.239	0.064	-0.022	0.074	0.118	0.140	0.239	0.121	-0.012	1

Figure 1: Conceptual model



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[i]Random effect results are not reported. Results are available upon request to the corresponding author.