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Strategic asset-seeking acquisitions by emerging market multinational enterprises and the liability of emergingness

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ABSTRACT

Emerging market multinational enterprises (EMNEs) often engage in strategic asset-seeking acquisitions to promote innovation catch-up. However, it is unclear why only some EMNEs improve their innovation performance when they face the liability of emergingness (LoE) in overseas markets. To resolve this puzzle, we investigated how EMNEs leverage internal and external LoE to achieve high innovation performance through strategic asset-seeking acquisitions. Application of configurational analysis to data from 162 acquisitions initiated by Chinese multinationals between 2013 and 2017 reveals four scenarios associated with different levels of innovation performance. The results highlight that Chinese multinationals' post-acquisition innovation performance is greater (lower) when both internal and external LoE are low (high), and that entrenched diplomatic relationships are needed to benefit from strategic asset-seeking acquisitions when external LoE is high. Our methodological contribution generates findings that explain variations in EMNEs' innovation performance when pursuing strategic asset-seeking acquisitions, and these findings corroborate the theoretical stance that the effects of strategic asset-seeking acquisitions on innovation performance should be viewed through the lens of the complexities and nuances of LoE.

1. Introduction

Cross-border acquisitions by emerging market multinational enterprises (EMNEs) have triggered academic interest in the effects of acquisitions of overseas assets on performance (Buckley et al., 2018; Luo and Tung, 2018). Research shows that EMNEs strategically acquire overseas assets, transfer that embedded knowledge back home, and then upgrade practices at home to augment their competitiveness (Deng, 2010; Luo and Tung, 2007), but it remains unclear whether buying strategic assets from abroad improves an organization's performance and in particular their innovation performance (Amendolagine et al., 2018).

When EMNEs engage in strategic asset-seeking acquisitions from abroad, they encounter a "double hurdle": not only do they face the liability of foreignness, they also experience negative perceptions toward their home countries (Madhok and Keyhani, 2012). The liability associated with being an EMNE is conceptualized as a liability of emergingness (LoE) (Cui and Xu, 2019; Madhok and Keyhani, 2012; Zhang, 2022), which distinguishes EMNEs from developed market multinationals (DMNEs) and underscores the unique,

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additional challenges faced by EMNEs when compared to DMNEs (Zhang, 2022).[1] For acquisitions, those challenges have been increasing with greater scrutiny and restrictions posed by local governments on EMNEs, especially Chinese MNEs. For instance, COSCO Shipping's acquisition of the Hamburg Port was approved by the German government in 2022, but they were forced to reassess in April 2023 due to national security concerns relating to key infrastructure. Given the role of acquisitions in EMNEs internationalization, a further investigation toward the impact of LoE on their performance is needed.

The impacts of LoE on EMNEs' internationalization and performance are being increasingly recognized by international management scholars (Li et al., 2019; Madhok and Keyhani, 2012; Zhang, 2022), but most studies refer to LoE only for theoretical support and do not capture the essence and impacts of LoE itself. Few studies document the effects of LoE on EMNEs from the pre-completion stage onwards, such as the importance of a home country's inferior institutional image (Zhang and He, 2014), the low-level of economic freedom in the home country (Zhang, 2022), or legitimacy issues caused by a mismatch of firms from the same emerging market (Bangara et al., 2012; Kostova and Zaheer, 1999). Existing studies fail to consider the inherent and dynamic complexities of LoE because they focus only on a single dimension of LoE and overlook the roles of LoE at the post-completion stage (e.g. acquisition performance).

More studies on the impacts of LoE on EMNEs' post-acquisition performance are needed for three reasons. First, LoE is conceptually constructed as a synthetization of EMNEs' characteristics that lead to disadvantages in the internationalization process, but there remains limited understanding about whether these characteristics eventually become advantageous. Some EMNEs can leverage on institutional voids and create more value, such as when state-owned enterprises perform better in cross-border acquisitions. Second, given the diverse characteristics of EMNEs and the different sources of LoE, knowledge remains limited in terms of how the sources of LoE coalesce to affect post-acquisition performance. Third, since LoE is inherent in EMNEs, the impacts of LoE on acquisitions at both the pre- and post-acquisition stage remain opaque typically because of a lack of knowledge regarding the pre-completion stage that makes it difficult to gauge any causal effect on post-acquisition performance.

To bridge this gap in the literature, we investigated the heterogeneity of LoE by following Madhok and Keyhani's (2012) approach and decomposing these liabilities into their distinct and different external and internal sources. Externally, EMNEs suffer from underdeveloped institutional environments that become prominent when they invest in developed countries with well-developed institutional environments. Such institutional distances result in deficiencies for EMNEs when they internationalize because of a less favorable image of the country of origin. Internally, EMNEs operate in institutional environments that possess limited resources and capabilities. Some firms address such institutional voids by drawing on political connections but then struggle with cross-border acquisitions due to a lack of transparency and trust (Meyer et al., 2014). On the other hand, the asymmetry-based view of LoE emphasizes underlying disadvantages in resource availability (Miller, 2003) that eventually become a competitive advantage (Madhok and Keyhani, 2012). These considerations suggest that strategies to overcome external and internal LoE could generate advantages for EMNEs, and thus we seek to answer an unexplored research question: *How do EMNEs leverage internal and external liability of emergingness to achieve high innovation performance in strategic asset-seeking acquisitions?*

Empirically, we adopt a configurational approach to identify combinations of internal and external LoE that allow EMNEs to achieve high innovation performance. This approach refers to "*any multidimensional constellation of conceptually distinct characteristics that commonly occur together*" (Meyer et al., 1993, p. 1175; see also Misangyi et al., 2017). Analytically, the technique of fuzzy-set qualitative comparative analysis (fsQCA) is adopted to detect configurations of internal and external LoE. FsQCA can detect configurations of focal conditions (i.e., internal and external LoE in this study) that lead to desirable outcomes by calculating scores of necessary and sufficient conditions and their combinations. FsQCA can also be used to explore representative cases (i.e., acquisitions) of each configuration based on their degree of membership of the focal conditions. Using this method, our research premise is contextualized in China and tested in a multiple-sourced database of 162 Chinese acquisitions between 2013 and 2017. As one of the most prominent emerging markets, China has the highest number of cross-border acquisitions in developed countries compared to other emerging economies (Casanova and Miroux, 2022), and offers a representative research context for the investigation of EMNEs' strategic asset-seeking behaviors. Moreover, compared with other emerging markets, contemporary studies suggest that China has more unique institutional environments shaped by previously protected economic status and state capitalism, which lead Chinese MNEs to encounter greater challenges induced by internal and external LoE, not least the trade wars between the US and China (Witt et al., 2023). A focus on Chinese MNEs not only allows for greater within-sample variance but also amplifies the practical implications of our study. Empirical results acquired through applications of fsQCA enable us to configure the major scenarios that Chinese multinationals face, and thus identify strategic patterns that help firms to strengthen innovation performance.

This study offers insights in three ways. First, we contribute to the literature on the internationalization of EMNEs by facilitating a nuanced dialogue concerning the LoE faced by Chinese multinationals. In a departure from extant literature that predominantly conceptualizes LoE as a whole (for instance, Kotabe and Kothari, 2016; Zhang, 2022), our approach disaggregates LoE into internal and external dimensions, thereby allowing for an exploration of the interaction among different types of liabilities. Further, our analysis incorporates the contingent effects of country-specific advantages, thereby enhancing our understanding of the dynamic nuances across liabilities. Second, this study sheds light on a classic international management issue (i.e., strategic asset-seeking acquisitions) through a configurational lens. Following a theory-building process based on these findings, we establish a mid-range theory (Campbell et al., 2016; Crilly, 2011) of firms' learning from strategic asset-seeking acquisitions to enhance innovation performance.

[1] The LoE is different from the liability of foreignness or the liability of newness where disadvantages stem from distances between home and host countries or from the firm being at an early stage, respectively (Zaheer, 1995). Instead, LoE derives from EMNEs' characteristics that are shaped by different institutional environments across countries (Cui and Xu, 2019; Madhok and Keyhani, 2012; Zhang, 2022).

Our findings offer new insights into the configurational patterns that EMNEs adopt to leverage internal and external LoE. Backed up by the power of the configurational approach, this study unleashes the potential to unveil interdependencies between the complex and systematic linkages of LoE faced by Chinese multinationals and their innovation performance outcomes. Third, recognizing that internationalization strategy has long been the center of research in international management (Deng, 2010; Luo and Tung, 2018), our study provides novel insights into the heterogeneity inherent in strategic asset-seeking acquisition by proposing four strategic scenarios associated with distinct innovation outcomes. Our paper therefore offers a theoretical toolkit for future studies to differentiate heterogeneous pathways by leveraging diverse LoE.

This study is structured as follows: First, we review the literature on strategic asset-seeking acquisitions and LoE to clarify the theoretical basis of our study. We then discuss the interrelationships among key factors that constitute internal and external LoE. The methodology section justifies the use of the fsQCA method for the investigation of the contributory roles of LoE on innovation performance. Finally, we provide a detailed discussion of the empirical findings, present four distinct scenarios, and derive five propositions that encapsulate the implications of our study before presenting conclusions.

2. Theoretical background

2.1. Strategic asset-seeking acquisitions and innovation

Strategically acquiring overseas assets is a major way that EMNEs internationalize, obtain key assets (e.g., advanced technologies, brands, and talents), and catch up with counterparts from developed countries (Luo and Tung, 2007). Strategic assets are resources or capabilities that EMNEs are unable to develop in their home countries due to institutional voids (Deng, 2010; Zheng et al., 2022), so strategic targeting through the internationalization process can acquire such assets that augment knowledge back home, consolidate domestic market positions, and enhance competitiveness in the global arena (Luo and Tung, 2018). However, the acquisition of strategic assets per se is not sufficient to improve innovative capabilities at home, as emphasized in the upward spiral model (Luo and Tung, 2018), and the process involves effective knowledge transfer and systematic upgrading at home.

Existing studies have examined different factors at various levels that affect EMNEs' post-acquisitions innovation performance. At the firm level, characteristics including the firm's social status in host countries, absorptive capacity, technological gaps between acquirers and targets, their learning orientation, ownership structure (e.g., state-ownership and business group affiliation), and political connections with home country government affect post-acquisition innovation performance (Amendolagine et al., 2018; Anderson et al., 2015; Ciabuschi et al., 2017; Liang et al., 2022; Su et al., 2020). At the region/country level, innovative capacity of host regions, regional technological gaps, geographical diversification, cultural distance, institutional distance, and institutional complexity are factors affecting EMNEs' innovation performance (Amendolagine et al., 2018; Elia et al., 2020; Liang et al., 2022). Further, the impact of institutional distances between emerging and developed economies on MNEs seems to be more prominent compared with the institutional distances between two developed countries. High institutional distances, reflected in different countries' socioeconomic structures, shape interfirm behaviors and perceptions in cross-border acquisitions (Zhu et al., 2019). Closer examination of these factors reveals that many of them are salient if not unique for EMNEs relative to DMNEs. For example, multinationals with state ownership or political connections are more active in emerging economies and those political backgrounds have more prominent impacts on EMNEs (Deng et al., 2018; Meyer et al., 2014).

Although research has examined factors at multiple levels on EMNEs' post-acquisition innovation performance, there remains only a limited level of understanding of the interactions across these factors. Current studies usually investigate innovation performance through a single theoretical lens, such as an institution-based or a resource-based view (e.g., Liang et al., 2022; Zhu et al., 2019) without synthesizing the theoretical background encompassing the contextual characteristics of EMNEs. Hence, a synthesized view encompassing multiple-level factors through a theoretical lens is needed to enhance understanding about how these factors and their institutional environments affect innovation performance following strategic asset-seeking acquisitions. Thus, in this article, based on the concept of the liability of emergingness, we develop and adopt a configurational lens to examine how internal features of EMNEs and their external institutional environment affect an EMNEs' innovation performance.

2.2. Liability of emergingness

Liability of emergingness (LoE) is defined as: "*the additional disadvantage that EMNEs tend to suffer (over other foreign DMNEs) by virtue of being from emerging economies*" (Madhok and Keyhani, 2012, p.28). The LoE is different from other established liabilities, such as the liability of foreignness, the liability of newness, or the liability of origin, judged by the nature of disadvantages incurred by different sources. The liability of foreignness emerges from the status of being foreign, which applies to all firms investing across borders (Zaheer, 1995), the liability of newness applies to all firms that are new to a market and without rich experience (Singh et al., 1986), and the liability of origin is incurred by all firms' country-of-origin (Ramachandran and Pant, 2010). In contrast, the LoE refers to barriers experienced by emerging market firms in the internationalization process, which is distinctly different from the other two liabilities because some EMNEs have rich experience at home though still suffer from being from emerging market countries. Table 1 below provides a detailed comparison between different types of liabilities.

Since the introduction of LoE as a concept by Madhok and Keyhani (2012), academic discussions of LoE have focused on how EMNEs can mitigate these effects. For instance, Kotabe and Kothari (2016) found that EMNEs which identify market niches when expanding into foreign markets can mitigate such liabilities, Bangara et al. (2012) suggest that aggressive small Indian ventures that access western financial resources are less likely to be constrained by LoE in their international expansions, and Wang et al. (2023)

argue that EMNEs can overcome LoE by building a corporate compliance capability to adapt to host country institutions. Nevertheless, the LoE concept has limited development and refinement in current studies. In order to bridge this gap, we adopt the underlying logic of Madhok and Keyhani (2012) by refining the LoE into internal and external liabilities, where internal LoE concerns the EMNE's own features and where external LoE refers to the additional disadvantages that result from institutional differences between an EMNE's home and host countries. In strategic asset-seeking acquisitions, LoE brings extra burdens to EMNEs by preventing them from improving their post-acquisition innovation performance (Zhang, 2022), so in order to examine the complexity of LoE in such acquisitions we explore how those disadvantages interact and jointly affect innovation performance at different levels.

2.2.1. *Internal liability of emergingness*

Internal LoE reflects EMNEs' inherent characteristics that are shaped by home country economic status, such as resource availability constraints and state involvement, when compared to firms from industrialized economies (Madhok and Keyhani, 2012). A home country's emerging market economic status can limit interactions between domestic and overseas firms and thus constrain the learning of managerial capabilities and limit internationalization experiences to the detriment of the EMNE's performance. A prominent feature of an emerging market's economic status is the prevalent involvement of state government in multinational operations, also known as state capitalism (Li et al., 2019; Meyer et al., 2014; Zhou et al., 2017). In our framing, given these two EMNE characteristics shaped by their home institutional environment, we argue that internal LoE has two major components: managerial capabilities – that is the inability to convert resources, when available, into opportunities and achievements – and the involvement of the state.

In EMNEs' internationalization process, insufficient resources are a major barrier that is consistent with arguments of latecomer disadvantages (Luo and Tung, 2007). Such resource deficit creates disadvantages for EMNEs' overseas acquisitions and innovation performance (e.g., Ai and Tan, 2020) although state involvement can compensate EMNEs for their lack of resources in both home and host countries by providing superior access to financial or country-specific resources (Li et al., 2018). However, such involvement then creates concerns for foreign targets and can reduce their willingness to share knowledge, which negatively affects the innovation performance of EMNEs' acquisitions (Su et al., 2020).

2.2.1.1. Managerial capabilities. EMNEs' managerial capabilities, such as their lack of cross-border acquisition experience, is an essential component of the internal LoE. From an experiential learning perspective (Kolb, 1984), firms learn from the accumulation of experiences and make better decisions during subsequent strategic activities. Hence, the lack of managerial capabilities, perhaps due to poorer quality experiences, may constrain EMNEs' learning of advanced knowledge from targeted firms (Ai and Tan, 2020) in the post-acquisition knowledge transfer process. In addition, a firm's prior knowledge has been identified as a major component affecting its absorptive capacity in EMNEs' strategic asset-seeking acquisitions (Cohen and Levinthal, 1990) with absorptive capacity being key in raising their post-acquisition innovation performance. Acquiring strategic assets do not automatically benefit firms (Deng, 2010) but they need to absorb and apply the acquired knowledge at home to catch up and develop their competitive advantages (Ai and Tan, 2020; Luo and Tung, 2018). Current literature thus suggests that firms' absorptive capacity can be enhanced if they possess more knowledge relating to acquisitions and strategic assets (Deng, 2010), and the lack of cross-border acquisition experience undermines an EMNEs' absorptive capacity. Further, cross-border acquisition experience represents an important factor affecting the success of EMNEs' strategic asset-seeking acquisitions and their subsequent performance (Deng, 2010; Li et al., 2021). Insufficient cross-border experience is seen as a major reason for poor post-acquisition integration and poor subsequent performance (e.g., (Deng, 2010), and hence we argue that cross-border experience reflected in EMNEs' managerial capabilities affects the post-acquisition innovation performance at home.[2]

2.2.1.2. Political embeddedness: state-ownership and political connections. We propose political embeddedness as a second major component of the internal LoE. In emerging economies, the government typically plays a vital role in the market through state ownership or other influencing policies (Meyer et al., 2014). Even after the market reform in China, where many state-owned firms have been privatized, the state can remain a shareholder and be involved in a firm's daily operations (Zhou et al., 2017). Privately-owned firms can also have connections with government, and this presents an alternative form of government involvement. Given government impacts in a market, privately-owned firms in emerging markets intentionally establish political connections to obtain privileged access to resources with the aim of overcoming institutional voids (Deng et al., 2018).

The impacts of political embeddedness on firms' internationalization and innovation processes have been discussed extensively, but consensus on these effects has yet to be reached (Cuervo-Cazurra and Li, 2021; Li et al., 2019; Tihanyi et al., 2019). On the positive side, studies argue that government involvement enables better access to home resources (e.g., bank loans, favorable incentives, and implicit guarantees) (Luo and Tung, 2007), which allow firms to leverage home country-specific advantages and lower barriers to reverse knowledge transfer from foreign markets (Li et al., 2021). On the negative side, however, connections with the government are seen as a liability (Su et al., 2020), as the opaqueness induced by political embeddedness increases target firms' unwillingness to share knowledge with emerging-market acquirers. The coexistence of the costs and benefits of government involvement then coalesce with

[2] Firms suffering from liability of newness may have insufficient cross-border experience, but are different from LoE in EMNEs (Madhok and Keyhani, 2012). EMNEs have limited cross-border experience, not because they are too young to internationalize but because they do not have opportunities to internationalize prior to market reforms. Thus, long-established EMNEs can possess insufficient international experience.

Table 1
A comparison of LoE to other types of liabilities.

	Liability of Foreignness	Liability of Newness	Liability of Origin	Liability of Emergingness
Definition	*"the costs of doing business abroad that result in a competitive disadvantage for an MNE subunit"*	*"young organizations have to learn new roles as social actors, coordinate new roles for employees and deal with problems of mutual socialization of participants, and because of both their inability to compete effectively with established organizations and their low levels of legitimacy."*	*"how the national origins of the MNE shape its disadvantages in international markets through three distinctive contexts of the MNE's ongoing activity: the home country context, the host country context, and the organizational context."*	*"additional disadvantage that EMNEs tend to suffer (over other foreign DMNEs) by virtue of being from emerging economies."*
Focus	Disadvantages of being "foreign"	Disadvantages of being "new"	Disadvantages of coming from a particular country	Disadvantages of being EMNEs
Scope	Incurred to all foreign firms in host markets	Incurred to all young firms	Incurred to all firms' country-of-origin	Incurred to emerging market firms
Source	Zaheer (1995, p.343)	Singh et al. (1986, p.171)	Ramachandran and Pant (2010, p.231)	Madhok & Keyhani (2012, p.28)
Example Reference	Zhou and Guillén (2015)	Miller and Eden (2006)	Tan and Yang (2021)	Zhang (2022)

other contingencies and create configurational thinking (Patala et al., 2021). Hence, government involvement in emerging market firms (i.e., state ownership/political connections) and managerial capabilities (e.g., cross-border acquisition experience) are internal LoE from which firms could suffer when engaging in strategic asset-seeking acquisitions.

2.2.2. *External liability of emergingness*

External LoE reflects characteristics of the home institutional environment within which the EMNE resides. When internationalizing to institutionally distant locations, such as developed countries, differences in regulations and norms disadvantage EMNEs because they need to adapt to different institutional environments and establish legitimacy in host countries (Madhok and Keyhani, 2012; Zhang, 2022). When considering institutional differences beside legitimacy issues induced by differences between emerging and developed countries, we propose two components of the external LoE in the context of EMNEs' strategic asset-seeking acquisitions.

The first component is institutional distance and draws on the institutional perspective (Zhu et al., 2019). Institutional differences between EMNEs' home and host countries reflect formal and informal institutional distances that lead to higher internationalization costs (Dikova et al., 2010; Luo and Tung, 2007; Meyer et al., 2014). Along with these extra costs, the potential for misperceptions caused by different institutions between emerging market acquirers and their targets could affect both the rate of integration and the post-acquisition performance (Zhu et al., 2019). Moreover, high institutional distances require EMNEs to adapt to a host country institutional environment to establish their legitimacy and reduce concerns in the eyes of local stakeholders (Zhou et al., 2016), as otherwise the lack of legitimacy in host countries increases the unwillingness of the acquired target to cooperate, which impairs knowledge transfer and the beneficial effects on innovation performance of EMNEs' acquisitions (Ciabuschi et al., 2017). However, EMNEs often find it difficult to adapt to a complex institutional destination environment and establish legitimacy in the eyes of local stakeholders (Zhang, 2022), and hence we suggest that EMNEs' legitimacy in a host country is a second major factor of the external LoE.

2.2.2.1. Formal and informal institutional distances. Institutional distance, that is the difference in institutional environments between home and host countries, can be subdivided into formal and informal institutional distances (Dikova et al., 2010; Kostova et al., 2020). Formal institutions emphasize regulations and rules that create institutional complexity for cross-border acquisitions and can affect the likelihood of deal completion and lead to additional legal expense (Berrone et al., 2020; Chen et al., 2018). In contrast, informal institutions focus more on norms and conventions that affect integration and subsidiary management issues (Berrone et al., 2020; Dikova et al., 2010).

EMNEs conduct strategic asset-seeking acquisitions in developed countries because they cannot develop such assets at home due to institutional voids (Deng, 2010; Zheng et al., 2022) but they encounter large institutional distances when investing in developed countries. These institutional distances create additional costs when acquiring strategic assets in host countries because formal and informal institutional distances are not only influential at the pre-acquisitions stage, such as the completion and duration of deals (Li et al., 2019; Zhou et al., 2016), they also damage the knowledge transfer process after the acquisition (Gaur et al., 2022). Thus, for strategic asset-seeking acquisitions, EMNEs are more likely to invest in advanced economies where institutions are more developed than in their home country. However, when formal institutions in host countries are more developed (e.g., antitrust laws and M&A-related regulations), EMNEs' attempts to acquire key assets could be prohibited, such as when the German government suspended the acquisition by Addsino[3] in 2020 due to national security concerns. The same situation arises when EMNEs transfer knowledge back home even though local intellectual property protection is strong. In the case of Geely's acquisition of Volvo, the Chinese MNE had to build a new R&D center to gradually learn and absorb key knowledge (Yakob et al., 2018). Although informal institutional distances are larger for EMNEs, there will be further barriers in the process of integration and knowledge transfer due to different value

[3] Addsino is a subsidiary of state-owned defense group China Aerospace Science and Industry Corp.

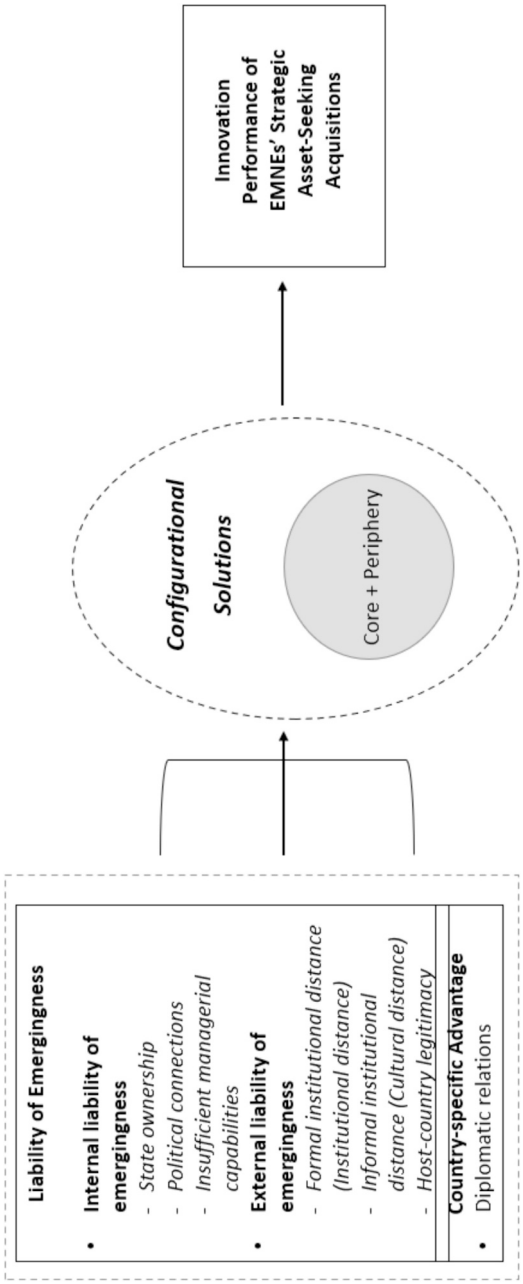

Fig. 1. Conceptual framework of the configurational view of the LoE and EMNEs' strategic asset-seeking acquisitions.

preferences and management styles that may hinder the growth of post-acquisition innovation performance.

On the positive side, formal and informal institutional distances offer unique opportunities for enhancing EMNEs' innovation performance post-mergers and acquisitions through an adaptation and learning process (Kostova et al., 2020). The encounter with different formal institutions, such as regulatory frameworks and legal systems, necessitates EMNEs to navigate through unfamiliar governance structures and compliance requirements, which can lead to the development of innovative strategies and operational practices (Gaur et al., 2022). The informal institutions, on the other hand, can minimize resource redundancy, reduce integration conflicts, and foster a richer exchange of perspectives and knowledge that can drive innovation and new product development (Kogut and Singh, 1988). The adaptation to varied practices, routines, and ideas stemming from distinct cultures can enhance the innovative performance in post-M&A integration.

2.2.2.2. Host-country legitimacy. Another set of drawbacks related to institutional differences between home and host countries relates to the issue of legitimacy, which we consider as another pillar of external LoE. Legitimacy refers to the local stakeholders' perception that firms' behaviors are in line with local informal institutions (e.g., norms or beliefs) (Suchman, 1995). We argue that the legitimacy that EMNEs establish in host countries is closely related to LoE because it also relates to country-of-origin issues (Han, 2021) that are affected by the host country's institutional environment, firm characteristics, and the process of building legitimacy (Kostova and Zaheer, 1999). When EMNEs internationalize for the first time, they have limited awareness of the processes that lead to issues of low legitimacy (Han, 2021; Zhang, 2022). The institutional distance between EMNEs' home countries and their target countries for acquisitions could be larger given the differences across both formal and informal institutions. In cases when EMNEs do not adapt to local practices, they are less likely to achieve a high level of legitimacy in the host country. Hence, when legitimacy is included as a component of LoE then the host country's perception of EMNEs can be explicitly taken into consideration, and this improves the overall understanding of LoE (Madhok and Keyhani, 2012).

Current literature on the acquisitions of assets initiated by EMNEs suggests that legitimacy is key to their success, such as in the case of post-acquisition integration (Zhang, 2022; Zheng et al., 2022). For instance, addressing legitimacy concerns in host countries helps EMNEs complete acquisitions and eventually benefits the management and knowledge transfer in the post-acquisition stage (Zhang et al., 2018). Legitimacy can be constructed at different levels (e.g., though the host government, inter-state, and business community) (Han, 2021), and when the legitimacy in the eyes of the host government is high then EMNEs could experience more supportive policies and industrial practices. Furthermore, when EMNEs are accepted by local businesses, EMNEs could potentially benefit more from enhanced reputations, knowledge spillovers, and collaborations in host countries, which in turn benefit their innovation performance.

2.3. Country-specific advantages in overcoming LoE: diplomatic relations

In traditional predictions of international business, theories such as the OLI model suggest that firms need sufficient firm-specific advantages to internationalize but that EMNEs possess insufficient firm-specific advantages relative to MNEs from developed countries (Huang et al., 2021). The emergence of EMNEs challenges such predictions because they do not possess sufficient firm-specific advantages, and hence they aim to access such resources through strategic asset-seeking acquisitions (Luo and Tung, 2018); this raises the question about what supports the internationalization of emerging market firms. Current studies point to the role of country-specific advantages (or complementary local resources) that compensate for the lack of firm-specific (or ownership) advantages (Hennart, 2009). As a result, EMNEs that can access country-specific advantages (e.g., labor or market size) and exploit them when acquiring assets overseas can increase their competitiveness and overcome the LoE.

However, not all country-specific advantages are available to all firms in the market. Existing research suggests that some EMNEs can leverage country-specific advantages (e.g., diplomatic relations) and exploit them in the internationalization process (Li et al., 2018). These advantages can facilitate their internationalization and reduce the barriers incurred by LoE. For instance, country-specific advantages help to offset internal LoE by helping EMNEs mitigate potential conflicts. Country-specific advantages can also mitigate against a lack of resources (e.g., R&D or internationalization subsidies) in the integration process and could counterbalance their insufficient managerial capabilities. External LoE might be mitigated by country-specific advantages, such as diplomatic relations. For example, if an EMNE's home country possesses good diplomatic relations with host countries, then the EMNE's acquisitions are more likely to be completed and target firms' hostile attitudes toward acquirers could be reduced (Zhang and He, 2014). Historical ties between countries are beneficial for reducing the costs incurred by high institutional distances between home and host countries (Madhok and Keyhani, 2012). When external LoE originates from the differences between EMNEs' home and host countries' institutional environments, then strong diplomatic relations can legitimize EMNEs in host countries and reduce the liability of foreignness or the liability of origin and improve EMNEs' abilities to cope with institutional pressures (Meyer et al., 2014).

Given that country-specific advantages can compensate for the lack of EMNEs' capabilities and mitigate high institutional distances between home and host countries, we argue that country-specific advantages are helpful for EMNEs when seeking to overcome internal and external LoE. This is especially the case when external LoE affect EMNEs' strategic asset-seeking acquisitions as country-specific advantages reduce costs and mitigate conflicts thereby benefiting their innovation performance.

2.4. A configurational view of LoE for EMNEs' post-acquisition innovation performance

The LoE perspective emphasizes the critical interplay between internal and external LoE (Madhok and Keyhani, 2012; Zhang,

2022), suggesting that their interactions are pivotal in achieving desired outcomes (i.e., high innovation performance). These interactions are shown to be conjunctural, equifinal, and asymmetrical (Fiss, 2011; Huang et al., 2021; Misangyi et al., 2017). Internal and external LoE collaboratively influence the post-acquisition performance of EMNEs (i.e., conjunction) and the LoE framework suggests that diverse configurations of internal and external LoE can yield similar favorable outcomes (i.e., equifinality), such as high post-acquisition innovation performance. This melding of theories elucidates the complex ways LoE influences EMNEs' innovation outcomes. For causal asymmetry (i.e., different structures between configurations for higher and lower performance), we observe that, for example, the presence of political ties, on the one hand, can provide sufficient resources and absorptive capability, while on the hand, the presence may lead to the bias of local targets in M&As, adversely affecting the post-acquisition performance. Apart from the internal and external LoE, we take a step further and examine the complementary role of diplomatic relations affecting EMNEs' country-specific advantages and their ability to compose internal and external LoE configurations. Fig. 1 provides a summary of this conceptual framework.

3. Methodology

3.1. Research design

This study applies a neo-configurational approach to resolve the complex nature of EMNEs' innovation performance by utilizing a fsQCA technique. Utilizing set theory as its foundation, fsQCA facilitates abductive reasoning, effectively bridging deductive variable-based analysis and inductive case-focused research (Misangyi et al., 2017). This method stands out for its capacity to explore the intricate ways EMNEs synergistically navigate external and internal LoE to achieve innovation. Unlike traditional methods (e.g., regression and case studies), fsQCA offers the examination of conjunctural causation, where various conditions interact to influence outcomes (Fiss, 2011; Ragin, 2008), and identifies equifinal pathways that reveal how different combinations of LoE lead to high innovation performance (Fiss, 2011). Furthermore, fsQCA's strength in distinguishing causal asymmetry—understanding that specific conditions may be crucial for positive outcomes but not necessarily for their absence—enriches our insights into the strategic configurations underpinning EMNEs' success. Thus, the fsQCA technique provides a nuanced and comprehensive framework for investigating how EMNEs leverage complex environments to foster innovation.

3.2. Sample selection and data collection

We draw on data relating to Chinese firms for the research context for the following reasons. First, among multinationals from emerging markets, Chinese and Indian MNEs adopt strategic asset-seeking acquisitions as one of their primary entry modes. Compared to Indian multinationals, Chinese firms may suffer more from their home institutional context where firms tend to be connected with the government to address institutional voids, which leads to higher internal LoE. Second, when Chinese MNEs utilize equity-based entry modes (e.g., acquisitions) and experience limited legitimacy in host countries, external LoE can become magnified due to institutional and cultural distances between home and host countries.

To construct our sample of Chinese strategic asset-seeking acquisitions, first we collated from Zepyhr all completed Chinese listed firms' acquisitions in OECD countries between 2013 and 2017. This sampling frame is chosen for two reasons. First, existing studies have looked into the post-acquisition performance of Chinese strategic asset-seeking acquisitions with a focus on earlier periods, such as 2000–2010 (Gubbi and Elango, 2016). An investigation into more recent acquisitions can advance our understanding of how Chinese MNEs grow from infant MNEs to mature ones, reflecting the success of their international expansion strategy. Second, although asset-seeking acquisitions do not necessarily or only focus on developed countries, larger differences in institutions between home and host countries provide a closer view of external liabilities when examining Chinese firms' acquisitions.

In the second stage we identified strategic asset-seeking acquisitions from all completed deals in the sampling frame. Following previous approaches (Liang et al., 2022), we identified acquisitions as strategic asset-seeking when the following keywords are detected in the deal comments section of Zephyr: *technology*, *key product*, *core product*, *key talents*, *improve productivity*, *target as leading company in the industry*, *integrate technology from the target*, *sale of patent*, *absorb target's technology*, *enhance their technological capability*, *integrate technology from the target*, *target became the R&D center after the acquisition*, *advanced technology base*, *develop ourselves in the industry*, *improve competitiveness*, *enrich product lines*, and *long term technological relationship*.

Such steps led to a final sample of 162 deals of Chinese MNEs' strategic asset-seeking acquisitions across OECD countries. Finally, we collected and then merged into this deal- and firm-level dataset, further data relating to innovation sourced from the Orbis Intellectual Property database.

3.3. Measures and calibration

Consistent with fsQCA best practices, we utilized a direct calibration method by utilizing the crisp-value and three-value schemes to calibrate measured outcomes and causal conditions, and we established specific anchors to calibrate fully-in, crossover, and fully-out memberships (Fiss, 2011; Ragin, 2008). Table 2 summarizes the measurements, calibration thresholds, and descriptive analysis of causal conditions and outcomes.

3.3.1. Outcomes: innovation performance of Chinese multinationals' strategic asset-seeking acquisitions

Innovation performance can be reflected in multiple ways including the quantity of patents applications, quality of patents (e.g.,

Table 2
Measurements and calibrations of variables.

Category	Variable	Measurement	Source	Calibration anchors	Measure Descriptions			
					Mean	SD	Max	Min
Outcomes	*Innovation performance*	Change rate of patent applications three years before and after the acquisition	Orbis Intellectual Property	0.714, 0, −1.346	−0.115	1.060	0.834	−4.778
Internal liability of emergingness	*State-ownership*	Percentage of state share	Zephyr	1, 0	0.136	0.344	1	0
	Political connections	Board members' connections with the government	CSMAR	1, 0	0.160	0.368	1	0
	Insufficient Managerial capabilities	Prior cross-border acquisition experience	Zephyr	1, 0	0.358	0.481	1	0
External liability of emergingness	*Informal institutional distance (Cultural distance)*	Mahalanobis distance	Hofstede's cultural dimensions	16.213,12.691,9.169	11.291	2.752	19.396	5.527
	Formal institutional distance (Institutional distance)	Mahalanobis distance	WGI	15.881,13.571,11.261	13.277	2.050	17.804	6.895
	Host-country legitimacy	Problematic projects over total projects in host countries	China Global Investment Tracker	0.250, 0.125, 0	0.100	0.093	0.667	0
Country specific advantages	*Diplomatic relations*	Number of years since the establishment of diplomatic relationships between China and host countries	Ministry of Foreign Affairs of the People's Republic of China	53, 44, 35	43.130	9.011	67	17

measured by patent forward citations; Singh et al., 2016), and new product sales over total sales (e.g., Wang et al., 2020). In the context of China, innovation-related data are not widely available since the State Intellectual Property Office (SIPO) database only provides data on backward citations, and the availability of new product sales data largely depends on a specific dataset with limited time range and coverage of MNEs (e.g., Annual Census of Chinese Industrial Firms).

Following other papers that focus on post-acquisition innovation performance (Liang et al., 2022; Makri et al., 2010), we measure innovation performance using the change in the rate of patent applications of Chinese firms three years before and three years after acquisitions. We chose not to utilize data on granted patents due to the extended time required for patent approval, which may delay the realization of acquired knowledge. In the specific context of our research, we contend that the examination of patent applications is a more suitable approach for capturing knowledge flows between Chinese acquirers and their targets during the post-acquisition knowledge transfer process. More specifically, this variable is operationalized by subtracting the number of Chinese MNEs' patent applications three years prior to acquisitions from the number of applications three years after acquisitions, with this difference then divided by the number of applications three years after the acquisition (Makri et al., 2010). In calibrating innovation performance, we assigned the value of 1 to firms with innovation performance in the 90th percentile to reflect their fully-in membership in the set, and firms with innovation performance in the 10th percentile were assigned a value of 0 to represent the fully-out membership.

3.3.2. Internal LoE: state ownership, political connection, and managerial capability

For the state ownership variable, and in addition to considering firms owned by the state, we include firms with different levels of state share ownership because different levels of state share ownership may differentially affect a firm's innovation performance (Zhou et al., 2017). Hence, the state ownership variable is measured as the percentage of state share ownership, which in our dataset ranges from 30 to 100 %.

Following previous studies (Deng et al., 2018), *political connection* refers to connections between board members of privately-owned firms and the government. More specifically, we manually checked Chinese firms' board members' biographical information provided in the CSMAR database and identified firms' connections when a board member holds or held government positions. This dichotomous variable is coded 1 when firms have connections and 0 otherwise.

We include a binary variable to capture Chinese multinationals' *insufficient managerial capability*, that is if the MNE is an inexperienced acquirer, and this highlights if the MNE had any prior cross-border acquisition experience before the specific strategic asset-seeking acquisition. This variable is equal to 1 when a firm has no prior experience and equal to 0 otherwise. In the calibration of the internal LoE, we utilized a crisp method, in which cases that scored 1 (0) were treated as fully-in (fully-out).

3.3.3. External LoE: cultural and institutional distance, and legitimacy

Values of *cultural and institutional distance* are based on data from Hofstede's cultural dimensions and the World Bank's World Governance Indicators (WGIs). Following studies exploring the impact of distance (Berry et al., 2010), we adopt the Mahalanobis method to capture formal and informal institutional distances. Although the formula developed by Kogut and Singh (1988) is based on the Euclidean method and does not consider the correlation between variables used in the calculation (Berry et al., 2010), current studies suggest that the Mahalanobis distance method is more useful when distance dimensions use different scales (Berry et al., 2010).

We used the Mahalanobis method to calculate the cultural and institutional distance based on Hofstede's (1980) four cultural dimensions (Individualism-Collectivism, Power Distance, Uncertainty Avoidance, and Masculinity-Femininity) and WGIs' six dimensions[4] (Voice and Accountability, Political Stability and Lack of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption). To calibrate the cultural and institutional distance, we assigned a score of 1 to Chinese multinationals faced with cultural and intuitional distances in the 90th percentile (i.e., 16.213 for cultural distance, and 15.881 for institutional distance), and a score of 0 was assigned to distances in the 10th percentile (i.e., 9.169 for cultural distance, and 11.261 for institutional distance). The 50th percentile (i.e., 12.691 for cultural distance, and 13.571 for institutional distance) is defined as the crossover point.

Following Cuervo-Cazurra (2011), we include *host-country legitimacy* to reflect the number of problematic investments into a host country; when there are more problematic projects in a host country then newcomers suffer from legitimacy issues. Following Han (2021), we collected the data from China Global Investment Tracker and calculated the score of home-country legitimacy by using the number of problematic investments of the home country (e.g., being questioned or blocked) divided by the total number of investments in a host country. The higher the score of this variable then the more potential legitimacy concerns for emerging market acquirers. In the calibration of legitimacy, we set the score equal to 1 for firms with legitimacy concerns at the 90th percentile (i.e., 0.250), representing a fully-in membership. A score of 0 was set for firms with legitimacy concerns in the 10th percentile (i.e., 0), indicating a fully-out membership. Following Fiss (2011) and Ragin (2008), we assigned the 50th percentile (i.e., 0.125) as the crossover point.

3.3.4. Country-specific advantages: diplomatic relationships

Following existing research (e.g., Li et al., 2018), diplomatic relationships can be leveraged by home-country firms when there are country-specific advantages in their foreign operations. This is particularly true in the context of China, where firms with political connections often leverage such advantages when investing abroad (Li et al., 2018). We calculated the *diplomatic relations* variable according to the number of years that diplomatic relationships have been established between China and the host country. To calibrate these relationships, we retained the same procedures: setting the value of 1 for firms with diplomatic relations in the 90th percentile (i.

[4] For further details see Kaufmann et al. (2009).

e., 53) to reflect fully-in membership, and the value of 0 for firms with diplomatic relationships in the 10th percentile (i.e., 35) to reflect fully-out membership. The 50th percentile (i.e., 44) was set as the crossover point.

4. Analyses and results

Following the updated two-step fsQCA analytical approach, we first analyzed (1) each individual condition and (2) the "sufficient but unnecessary part of a factor that is insufficient but necessary for an outcome" (SUIN) conditions (Schneider, 2019, p.1114). In the second step, we conducted a set of sufficiency analyses to reveal the receipts of Chinese multinationals associated with diverse levels of innovation performance.

4.1. Analyses of necessary conditions

We commenced our analysis by testing if any of the focal causal conditions are considered necessary for achieving a high level of innovation performance. A condition is "necessary" if it consistently appears in the solutions of the outcome (Fiss, 2011; Ragin, 2008). With the widely suggested benchmark of 0.8, the analytical results in Table 3 imply that none of the causal conditions, except for insufficient managerial capabilities, can be pinpointed as necessary conditions for either the high level or the low level of innovation performance (see the footnote to Table 3). However, this causal condition shows variability in the subsequent sufficiency analysis, suggesting that the lack of variance is not significant in our analysis.

To examine the necessity of any potential super subsets or disjunctions (that is, sufficient but unnecessary part of a factor that is insufficient but necessary for the result, i.e., SUIN conditions) are suggested for inclusion in the next step of the sufficiency analysis, we followed Schneider's (2019) recommendation to identify configurations with high consistency (0.9), coverage (0.6), and relevance of necessity (RoN) (0.5) as possible SUIN conditions. No SUIN condition for high innovation performance was identified, which suggests that none of the SUIN conditions needed to be brought to the next step of our sufficiency analysis. The results further confirm the variety of our solutions.

4.2. Sufficiency analyses

We then conducted four sufficiency tests to explore our research questions. First, we conducted two sufficiency tests to explore how Chinese multinationals leverage and configure internal and external LoE to promote high innovation performance. We adopted a frequency cut-off at 1, which fits the requirement that at least 80 % of cases should be included (Ragin, 2008). Following suggested practices (Hersel et al., 2023; Ragin, 2008), we set the consistency cut-off at 0.8 and the proportional reduction in inconsistency (PRI) above 0.70 in all analyses, which led to the results presented in Table 4. Solutions 1–5 are configurations associated with a high level of

Table 3
Necessary conditions.

	High level of innovation performance			Low level of innovation performance		
	Consistency	Coverage	z-score[a]	Consistency	Coverage	z-score[a]
Internal liability of emergingness						
State-ownership	0.195	0.738	−19.232	0.107	0.262	−21.971
Political connections	0.325	0.551	−15.186	0.408	0.449	−12.603
Insufficient Managerial capabilities	0.867	0.608	1.684*	0.859	0.392	1.435
External liability of emergingness						
Informal institutional distance (Cultural distance)	0.307	0.681	−15.746	0.427	0.616	−12.011
Formal institutional distance (Institutional distance)	0.553	0.727	−8.089	0.573	0.490	−7.467
Host-country legitimacy	0.450	0.737	−11.295	0.534	0.568	−8.681
Country specific advantages						
Diplomatic relations	0.524	0.758	−8.992	0.570	0.536	−7.560

Note: Necessary conditions are calculated with the fsQCA4.1 software.
*p, 0.05; **p, 0.01, one-tailed tests.
[a] We assessed whether the observed consistencies are significantly greater than a pre-specified "benchmark" consistency using probabilistic criteria; we used a benchmark of 0.80. This is accomplished via a z test using the following formula (see Ragin, 2000: 109–115, 227–229):

$$z = ((CO–CB)–1/2n)/\text{sqrt}((CB^{*}(1–CB))/n)$$

where CO is the observed consistency, CB is the benchmark consistency (here 0.80), and *n* is the number of cases with nonzero membership in the set of firms with a high level of innovation performance ($n = 155$). Thus, this assesses the difference between the observed consistency and the benchmark consistency relative to the standard error of the benchmark (i.e., the latter is represented by the formula's denominator). The *z* score can then be evaluated using the standard normal distribution table (and, following convention, we use α of 0.10 for statistical significance; i.e., $z \geq 1.95$ as a one-tailed test is appropriate here). In essence, this use of probabilistic criteria allows for inferences regarding the "quasi-necessity" of the attributes under study (i.e., the particular finding is not due to chance); a 0.80 benchmark means that the attribute(s) in question is (are) "almost always necessary" for performance (Ragin, 2000, p.109).

Table 4
Configurations of EMNEs with high innovation performance.

	High level of innovation performance						Low level of innovation performance	
	S1	S2a	S2b	S3	S4	S5	S6	S7
Internal liability of emergingness								
State-ownership	●	⊗	⊗	●		⊗	⊗	⊗
Political connections	⊗	●	●	⊗	⊗	⊗	●	●
Insufficient Managerial capabilities		⊗	⊗	●	●	●	⊗	
External liability of emergingness								
Informal institutional distance (Cultural distance)	⊗	⊗	⊗	⊗	●	⊗	●	●
Formal institutional distance (Institutional distance)	●	⊗		⊗	⊗	●		●
Host-country legitimacy	⊗		⊗		●	●	●	●
Consistency	0.874	0.851	0.865	0.992	0.896	0.944	0.875	0.879
Raw coverage	0.113	0.036	0.043	0.078	0.108	0.067	0.034	0.104
Unique coverage	0.071	0.003	0.010	0.031	0.060	0.034	0.012	0.082
Representative case	Shanghai Electric Group acquired GreenEFW	Goertek acquired Kopin	DPG acquired Fosber	Ling Yun acquired Waldaschaff	Jetsen acquired Auro	Autobio Diagnostics acquired LBT	Zoomlion acquired Raxtar B.V.	Yiling acquired HealthWatch
Overall solution consistency	0.890						0.865	
Overall solution coverage	0.322						0.115	

Note: Black circles indicate the presence of a condition, and circles with "X" indicate its absence. Large circles indicate core conditions; small ones represent peripheral conditions. Blank spaces indicate and ambiguous result.

Table 5
Configurations of EMNEs with high innovation performance moderated by diplomatic relationships.

	High level of innovation performance									Low level of innovation performance	
	S8a	S8b	S9a	S9b	S10a	S10b	S11a	S11b	S12	S13	S14
Internal liability of											
State-ownership	●		⊗	⊗		⊗	●		●	⊗	⊗
Political connections	⊗	⊗	●	●	⊗	⊗	⊗	⊗	⊗	●	●
Insufficient managerial capabilities		●	⊗	⊗	●	●	●	●	●	⊗	●
External liability of											
Informal institutional distance (Cultural distance)	⊗	⊗	⊗	⊗	●		⊗	⊗	⊗	●	●
Formal institutional distance (Institutional distance)	●	●	⊗		⊗	●	⊗	⊗			●
Host-country legitimacy	⊗	⊗	⊗	⊗	●	●		⊗	⊗	●	●
Country specific advantages											
Diplomatic relations	⊗	⊗	⊗	●	●	●	●	●		⊗	●
Consistency	0.972	0.934	0.888	0.834	0.903	0.909	0.995	0.918	0.861	0.858	0.066
Raw coverage	0.086	0.197	0.032	0.026	0.091	0.086	0.064	0.164	0.127	0.029	0.066
Unique coverage	0.001	0.045	0.013	0.007	0.024	0.012	0.014	0.031	0.031	0.029	0.866
Representative case	Shanghai Electric Group acquired GreenEFW	Travelsky acquired Openjaw	Goertek acquired Kopin	DPG acquired Fosber	Maanshan acquired Valdunes	Autobio acquired LBT	Fuxin acquired Elecdey	Huapont acquired Swiss Biological	Ling Yun acquired Waldaschaff	Zoomlion acquired Raxtar B.V.	HIWT acquired Josab
Overall solution consistency	0.875									0.864	
Overall solution coverage	0.411									0.100	

Note: Black circles indicate the presence of a condition, and circles with "X" indicate its absence. Large circles indicate core conditions; small ones represent peripheral conditions. Blank spaces indicate an ambiguous result.

innovation performance, while solutions 6–7 are configurations associated with a low level of innovation performance.

In the next step, we conducted two further sufficiency analyses to test the moderating effect of the country-specific advantage (i.e., diplomatic relations). Following the same rules in the main tests, we adopted the value of 1 as our frequency cut-off and employed the value of 0.8 as the consistency cut-off both for high and low levels of innovation performance, and Table 5 presents the results of these sufficiency analyses. For the high levels of innovation performance, nine solutions were generated (solutions 8a–12) while three solutions were produced for the low levels of innovation performance (solutions 13–14).

We depict the configurational solutions in line with the reporting style suggested by Fiss (2011), where black circles (●) highlight the presence of the corresponding causal condition and circled crosses (⊗) indicate the absence of a condition; large circles highlight core conditions and small circles represent peripheral conditions; blank spaces illustrate ambiguous conditions where corresponding causal conditions may or may not be present.

The overall model fit is reflected in consistency and coverage. Coverage scores suggest how well solutions reflect the sample (Ragin, 2008) whereas consistency scores reveal how well the solution corresponds to the data generated for each configuration separately and for the whole range of confirmations. As indicated in Tables 4 and 5, the consistency of solutions associated with high and low levels of innovation performance is above the widely accepted threshold of 0.8 (Fiss, 2011; Misangyi et al., 2017; Ragin, 2008). Coverage is also satisfied, with at least 50 cases reflected in each analysis. The raw coverage for each solution measures the explanatory power of an individual configurational solution. However, any single observation might be explained by multiple configurations, and therefore a measure of each configuration's unique contribution to the solutions is provided in the form of unique coverage. We include a representative case for each configuration to enable further exploration of these results. Cases where membership is >0.5 in each solution are considered representative by fsQCA 4.1.

4.3. Robustness analyses

We conducted three additional sensitivity checks to identify the robustness of our main results. First, we strictly followed the meticulous analytical procedures in our original analyses recommended by previous studies to ensure a rigorous research design. The consistency threshold is in line with recommended criteria (>0.8) (Fiss, 2011; Misangyi et al., 2017; Ragin, 2008) and in the research design we set a time lag between the outcome and focal casual conditions; the limited diversity issue was also considered. The logically possible causal combinations of this study are (2^7 = 128), which can be fully covered by our sample. These details lead to the conclusion that the sufficiency analyses of this study are free from the impact of a limited diversity of combinations. The consistent presence of eight solutions for the high innovation performance and two solutions for the low innovation performance naturally implies robustness of our results, and the satisfied overall consistency and coverage across both models further validate our results.

Second, to enhance the robustness of our findings, we performed sensitivity checks by adjusting the causal factors' specifications, particularly through alternative calibration points (e.g., 80-50-20 percentile). This adjustment led to slight variations in the number and configuration of solutions, yet the core interpretations of our results remained fundamentally consistent. Third, in line with previous studies (Crilly, 2011; Li et al., 2023), we further validated our findings by lowering the consistency thresholds in our analyses to 0.75. As expected, the resulting configurations, while aligning with those in Table 4, displayed reduced precision due to the less stringent consistency requirement (Crilly, 2011; Ragin, 2008). Fourth, we utilized an alternative approach for evaluating cultural distance by calculating the Euclidean distance between cultures and proceeded to the sufficiency test. The outcomes of this analysis were, for the most part, consistent with our initial findings.[5]

5. Discussion

5.1. Configurational results

EMNEs face different configurations of internal and external LoE that may affect their post-acquisition innovation performance. In this section, first we examine the main tests to classify the four scenarios associated with either high or low innovation performance. Based on the two types of LoE, we map the eight generated configurations (see Table 4) according to the frequency of liability factors that appeared in each configuration. Next, we proceed to include the contingent effect of diplomatic relations. To obtain an insightful picture of the generated solution, we discuss them each with a representative case. All information included in the discussion is supplemented by publicly available archival data (e.g., Zephyr databases, acquisition announcements, annual reports, and media interviews).

5.1.1. Scenario I: both internal and external liabilities are low

Solutions 1, 2a, and 2b exhibit a situation where both internal and external liabilities are low. Chinese multinationals characterized by these three solutions benefit from strategic asset-seeking acquisitions. Solution 1 indicates state-owned firms, while solutions 2a and 2b refer to private firms with both political connections and managerial capabilities. In these three solutions, firms conducted their acquisitions in countries where external LoE was low, as indicated by the small cultural distance and a combination of manageable institutional distance and/or legitimacy troubles in the host country.

[5] Detailed results of robustness tests are available from the authors upon request.

International acquisitions initiated by Shanghai Electric Group into the UK are a representative case for solution 1. Shanghai Electric Group's international acquisition strategy, exemplified by its purchase of UK-based GreenEFW, demonstrates a successful combination of state-backed strategic direction, global expansion, technological exchange, and cultural compatibility that drive high innovation performance. Instead of hindering the learning process, state ownership provides the financial and political backing for ambitious international ventures, facilitating the company's push into high-end equipment manufacturing and clean technology. This, combined with strategic international acquisitions, broadens Shanghai Electric's global presence and market understanding, which is critical for innovation in diverse regulatory environments. The acquisition of GreenEFW facilitates technological exchange, where leveraging advanced waste-to-energy technologies, underpinned by a relatively low cultural distance and minimal legitimacy issues, enhances the integration process and innovation outcomes. This blend of strategic alignment with state goals, intentional internationalization, effective knowledge transfer, and cross-cultural synergy provides a feasible framework for achieving innovation through international acquisitions.

For solution 2a, a representative case that illustrates this result is the acquisition of Kopin by Goertek Inc. (Goertek hereafter). The synergy between Goertek's comprehensive vertically integrated solutions and Kopin's innovative wearable computing technologies exemplifies the power of combining complementary strengths. Goertek, a leader in digital-era hardware, including virtual and augmented reality components, recognized the value of Kopin's pioneering wearable technology. The mutual recognition of complementary interests and capabilities facilitated a collaborative environment, enabling Goertek to leverage Kopin's advanced techniques and market insights. This collaboration was underpinned by manageable formal and informal distances, allowing for an effective partnership that expanded Goertek's product offerings into cutting-edge VR, AR, and audio products. Kopin's President and CEO, Dr. John C.C. Fan expressed:

> "*We are pleased to have Goertek as a large shareholder of Kopin since the interests and core capabilities of our two companies are very complimentary. We have been working closely together, leveraging Goertek's leading product development and manufacturing capabilities to commercialize our high-performance technologies for VR, AR and audio products.*"

Long Jiang, Goertek's CEO proclaimed similar good will:

> "*This agreement further aligns the interests of both Goertek and Kopin. We will utilize Kopin's industry leading technologies to create a range of wearable products with the most advanced features for our customers. We are excited to see the initial products utilizing Kopin key components hit the market later this year.*"

In this situation, Goertek effectively harnesses advanced techniques and profound market insights from Kopin to develop collaboratively and bring to market a wide range of technologies and wearable products.

Guangdong Dongfang Precision Science and Technology Co Ltd.'s (DPG hereafter) acquisition of Fosber in 2017 is one of the representative cases of solution 2b, and it faces similar external and internal LoE pressures as experienced by Goertek. The joint venture with Fosber Group, followed by the acquisition, was a strategic move to absorb knowledge and technology from a leading supplier in the corrugated board packaging industry. The pre-acquisition partnership with Fosber helped DPG navigate cultural differences and legitimacy troubles, laying a solid foundation for successful integration and post-acquisition innovation.

In line with Ciabuschi et al. (2017) and Deng (2010), these first three solutions imply that an excellent situation for EMNEs to realize their strategic asset-seeking purpose is to minimize internal LoE while selecting investment destinations with limited external LoE. Therefore, we propose:

Proposition 1. The situation where both internal and external liabilities of emergingness are low is most helpful in facilitating EMNEs to improve their post-acquisition innovation performance.

5.1.2. Scenario II: internal liability is high while external liability is low

In a situation where internal liability is high but external liability is low, EMNEs are able to significantly improve their innovation performance. Solution 3 reflects state-owned firms without international acquisition experience who identify targets for strategic asset-seeking acquisition in countries with relatively low cultural and institutional distances, although there might be legitimacy troubles among peers from the same home country.

Ling Yun Industrial Corp Ltd.'s (Ling Yun hereafter) acquisition of Waldaschaff Automotive from Germany is a representative example of solution 3. Ling Yun is a manufacturer of metal and plastic spare parts for automobiles, seeking to expand its limited international presence and innovation capabilities through the acquisition of Waldaschaff Automotive, a German leader in lightweight automotive construction using advanced materials like aluminum and steel. Waldaschaff Automotive's distinction as a TOP 100 Innovator in Germany highlights its role as a critical source of innovative e-mobility solutions and patents, which Ling Yun aimed to leverage to improve its own product offerings and technological prowess. The successful integration of Waldaschaff Automotive into Ling Yun's operations underscores the importance of leveraging the potential benefits of state ownership. Through capitalizing on state ownership, Ling Yun has strategically engaged in acquisitions in countries with limited institutional distance. This deliberate choice enabled Ling Yun to navigate potential integration challenges more effectively, ensuring a seamless transfer of technical expertise and innovation capabilities. Such a focused approach not only bolstered Ling Yun's innovation performance but also strategically positioned the company to better serve both domestic and international markets. By integrating advanced lightweight construction technologies into its products, Ling Yun enhanced its market offerings, reinforcing its competitive edge in the industry. Therefore, we propose:

Proposition 2. Where internal liability of emergingness is high and external liability of emergingness is low, EMNEs can improve

their post-acquisition innovation performance by focusing managerial attention on leveraging the benefits of state-ownership.

5.1.3. Scenario III: internal liability is low while external liability is high

For EMNEs with a low level of internal LoE, navigating the complex landscape of high external LoE presents a challenge yet offers a unique opportunity for enhancing innovation. Solutions 4 and 5 delve into scenarios where relatively inexperienced private firms from emerging markets engage in acquisitions within host countries marked by significant formal and informal institutional distances. These acquisitions are characterized by larger institutional discrepancies, presenting heightened legitimacy challenges for EMNEs as they strive to adapt to host countries' local institutional environments. An illustrative example of solution 4 is Beijing Jetsen Technology Co Ltd.'s (Jetsen) acquisition of Auro Technologies Ltd. (Auro), a Belgian firm specializing in audio solutions for music and film. Despite the high cultural distance and legitimacy risks inherent in entering the Belgian market, Jetsen successfully navigated these external LoE by leveraging its existing low internal LoE. This strategic positioning allowed Jetsen to effectively assimilate Auro's advanced technological knowledge and tacit know-how, enhancing its own innovation performance. This cross-border partnership not only facilitated Jetsen's acquisition of cutting-edge technology but also opened avenues for Auro to penetrate the Chinese market, leveraging Jetsen's extensive experience and resources in the media entertainment industry to expand into new market segments. The CEO of Beijing Jetsen Technology, Shengli Han, mentioned:

> "*With the past two decade of legacy experience in media entertainment industry, we can leverage our resources to further grow Auro's business in broadcast and consumer electronic market.*"

Similarly, Autobio Diagnostic Co Ltd. did the same when they faced significant external LoE in their acquisition of an Australian enterprise called LBT Innovations Ltd., which is an exemplar case of solution 5. Cross-border acquisitions in Australia require overcoming substantial institutional barriers to obtain legitimacy, particularly due to frequent infringements on local legitimacy by their peers. The comparison between Solution 4 and Solution 5 indicates that EMNEs must carefully navigate formal and informal distances. Inexperienced EMNEs with low legitimacy in host countries may not face these distances simultaneously if they aim to yield desired innovation performance. Therefore, we propose:

Proposition 3. Where internal liability of emergingness is low and external liability of emergingness is high, formal and informal distance cannot appear simultaneously for EMNEs to achieve high level of innovation performance, especially for those without sufficient managerial capability and host-country legitimacy.

Solution 6 highlights a scenario where a relatively low level of internal LoE is insufficient to counterbalance the challenges presented by a demanding external environment in overseas markets. These challenges include significant cultural and institutional distances, along with frequent legitimacy issues that EMNEs encounter. The acquisition of Raxtar BV initiated by Zoomlion Heavy Industry Science and Technology Co Ltd. (Zoomlion hereafter) is a typical case for this situation.

Zoomlion, established in 1992 with a focus on developing and manufacturing high-tech equipment for engineering and agricultural industries, evolved into a global entity with an extensive product range and nearly 600 products. The company fostered deep connections with the local government throughout its development, supporting its growth and innovation. The acquisition of Raxtar BV, a Dutch firm known for its innovative vertical access solutions for high-rise buildings, was seen as a strategic move to incorporate internationally advanced technology, aiming to enhance operational performance, service value, and market satisfaction. Tang Shaofang, Deputy General Manager of Zoomlion Hoisting Machinery Branch Company and General Manager of Zoomlion's hoist division in Shanghai, said:

> "*This acquisition will bring in international advanced technology, which will improve operational performance, enhance service value, and reduce lifting costs, thereby meeting customer requirements for increasing value and reducing cost. This will strengthen our ability to provide customers with hoisting machinery services and increase market satisfaction and loyalty. It will also guarantee the development of Zoomlion's hoisting machinery.*"

Despite these intentions, Zoomlion's strategy encountered significant obstacles. The high formal and informal distances between Zoomlion and Raxtar presented severe integration challenges, impeding the effective transfer and assimilation of knowledge. The anticipated synergy from acquiring strategic assets was undermined by legitimacy issues, which complicated the integration process and hindered Zoomlion's ability to realize the expected gains in innovation performance from the acquisition.

5.1.4. Scenario IV: both internal and external liability are high

EMNEs facing significant internal and external LoE encounter challenges in effectively assimilating valuable knowledge and expertise from their target firms, thereby hindering their capacity to enhance their innovation performance. Solution 7 highlights this predicament for private Chinese multinationals of strategically appointing board members with prior government experience, thereby establishing tight political connections. Despite efforts to conduct strategic asset seeking M&As, these EMNEs find it difficult to achieve their aims of accessing strategic assets and enhancing innovation performance when acquisition targets are located in countries with considerable cultural and institutional disparities and legitimacy challenges.

A representative case of this solution is the acquisition of HealthWatch by Yiling Pharmaceutical Co Ltd. (Yiling hereafter). In 1992, Yiling was founded by Professor Wu Yiling, a prominent member of China Academy of Engineering. After decades of development, Yiling became a key high-tech enterprise in China and was successfully listed on the Shenzhen Stock Exchange in 2011. It grew well in the domestic market while lacking internationalization experience until 2017. In 2017, Yiling invested around US$20 million in HealthWatch Ltd., an Israel-based cardiac monitoring and alerting equipment manufacturer. The CEO of HealthWatch showed his

excitement to have Yiling as a partner:

> "*We are excited for Yiling to join HealthWatch as both an investor and Chinese strategic partner. This significant investment will support our commitment to setting a new standard in homecare remote monitoring, by improving the quality, convenience, and digital health capabilities of wearable technology*."

However, this goodwill was not realized smoothly, as large cultural distance and legitimacy troubles hindered knowledge flow and absorption. The huge amount of effort devoted to this acquisition occupied the limited resources within the firm, which led to a decrease in the innovation performance of Yiling.

5.1.5. Contingent effect of diplomatic relations

Results of the contingency analysis, presented in Table 5, reveal the role of diplomatic relations in boosting emerging market acquirers' innovation performance. These results indicate that for scenario I, when both internal and external LoE are low, diplomatic relations are not necessary to help Chinese multinationals to achieve high innovation performance (see solutions 8a, 8b, 9a, and 9b). These results also indicate that for scenario II, where Chinese multinationals face a relatively high level of internal LoE but still limited external ones (see S11a and S12), EMNEs should invest in host countries with well-established diplomatic relations with the home country to seek strategic assets.

A closer examination of the heterogeneity between the solutions with (i.e., solutions 9b to 11b) and without (i.e., solutions 8a to 9a) the presence of diplomatic relationships suggests that good diplomatic relations between home and host countries are required to secure high post-acquisition innovation performance for Chinese multinationals when they either face high internal LoE (see S11a, Scenario II) or external LoE (S10a and S10b Scenario III). This finding echoes the viewpoint that EMNEs can leverage diplomatic relations as country-specific advantages in their internationalization process (Li et al., 2018; Zhang and He, 2014). Therefore, we propose:

Proposition 4. When either the internal or external liability of emergingness is high, a well-established diplomatic relationship between home and host countries needs to be installed to help EMNEs achieve high innovation performance.

Solution 14 underscores the significance of diplomatic relations as a boundary condition; specifically, when both internal and external LoE are both high, even if EMNEs choose a host country that maintains well-established diplomatic relations with their home countries, they still face challenges in translating acquired knowledge into improved innovation performance. Based on the discussion above, we propose:

Proposition 5. When high external and internal LoE are both high, EMNEs are very unlikely to raise innovation performance, even with the leverage of country-level specific advantages.

5.2. Theoretical implications

This study contributes to the literature in the following ways. First, a key contribution of this study is the examination of the nuances in LoE by inspecting its internal and external dimensions. LoE has been widely acknowledged as hinderances to the success of internationalization initiatives and thereby impede subsequent performance. Studies test such suppression effects by treating the liability as a whole (Kotabe and Kothari, 2016; Zhang, 2022) but neglect their inherent heterogeneity and complexity. The multifaceted nature of LoE has been documented (Madhok and Keyhani, 2012) and we build on that basis to distinguish internal from external LoE and then explore interactions between these two dimensions. Our empirical study tests on the contingent effect of diplomatic relations on innovation performance after asset acquisition offer new insights into the dynamics of the leverage of LoE by Chinese multinationals.

Second, we shed light on the application of the configurational approach in the international management field. Although the fsQCA method has drawn increasing attention from scholars in the field of international management ever since Pajunen (2008) and others first applied the method in an international context, international management scholars have not yet fully embraced configurational theorizing and methods (Fainshmidt et al., 2020). Recognizing the promising potential of fsQCA in breaking new (and old) ground in international management research, this study re-examined the contributory effects of internal and external liabilities on Chinese multinationals' innovation performance from a configurational perspective. It responds to Fainshmidt et al.'s (2020) call for the leveraging of configurational theorizing and the associated application of fsQCA to revisit established notions, theories, and pertinent issues in the international management literature. While studies emphasize the critical role of LoE on firm performance, the ability of researchers to unpack fully and detect empirically the impact of internal and external LoE on various aspects of firm performance has been strictly limited due to the inability of predominantly regression-based approaches to detect the complex influences of focal liabilities on MNE performance when they attempt to benefit from strategic asset-seeking acquisitions.

Third, we clarify the outcomes of strategic asset-seeking acquisitions by exploring strategic formulations associated with different LoE. Emerging market firms have long been pursuing strategic asset-seeking acquisitions overseas with the aim of learning advanced technologies and improving innovation performance (Luo and Tung, 2018). However, conditions vary under which EMNEs raise their innovation performance through strategic asset-seeking acquisitions (e.g., Amendolagine et al., 2018). In this study, we linked LoE to the outcome of strategic asset-seeking acquisitions, outlined four scenarios associated with either high or low innovation outcomes, and offered five propositions for the shared features among generated solutions. Our results illustrate identifiable heterogeneous approaches adopted by Chinese multinationals when pursuing strategic asset-seeking knowledge absorption needs, and these in return

lead to a range of innovation enhancements.

Methodologically, and differing from previous fsQCA analyses in international management studies that primarily focus on the main effects (Gorgijevski and Andrews, 2022; Patala et al., 2021), or treat contingencies and causal conditions as equally important and bring them to fsQCA simultaneously, this study took two nuanced steps to test for a contingency effect (Dwivedi et al., 2018). Step one was to focus on the main effects, that is, the causal relationships between internal and external and firms' innovation performance. Once we identified multiple pathways leading to certain innovation outcomes, we move to step two. That is, we assessed the contingent effect of diplomatic relations in facilitating firms to achieve high innovation performance. In doing so, our findings provide deeper insights into the strategic configurations for leveraging the LoE to obtain high innovation performance.

5.3. Managerial implications

Our study offers practical implications for EMNEs. First, acquirers from emerging markets need to manage internal and external liabilities carefully in their internationalization process to yield sufficient improvements in their innovation performance. Our empirical results draw attention to the roles of external liabilities in affecting an EMNEs' ability to enhance their innovation, with external liabilities appearing stronger than internal liabilities; this finding provides guidance to emerging market firms to pay more strategic attention to the location choice of host countries to achieve their asset-seeking goals.

Second, our analysis of multiple configurations of internal and external LoE can help managers of EMNEs to navigate possible solutions that best fit their situations and preferred strategies, and hence boost their innovation performance resulting from asset-seeking acquisitions. Specifically, the contingent effect of diplomatic relations is an important tool to help EMNEs leverage LoE from internal characteristics and external environments. This emphasizes the need to obtain political connections or to bear political influence in order to benefit from a lack of a level playing field.

5.4. Limitations and future research agenda

This study employed configurational thinking to investigate how EMNEs leverage external and internal LoE to achieve higher levels of innovation performance. However, our study has some limitations that leave space for future research. First, while our research context focuses on China, which is one of the most prominent emerging markets with the highest number of cross-border acquisitions into developed countries (Emerging Market Institute, 2022), our empirical sample is restricted to Chinese firms. Although the representativeness of Chinese MNEs for EMNEs is recorded by several studies (Anderson et al., 2015), the generalizability of our results can potentially be compromised due to the previously protected economic status of the home county and their state capitalism. Further research should replicate our study with EMNE data from other emerging countries with a variety of internal and external LoE. Thus, the propositions can also be tested further in more heterogeneous contexts.

Second, this study considers different types of internal and external LoE. However, we only include six dimensions (and one country-specific advantage) that are critical to EMNEs. To further enrich our analytical framework, future studies could encompass more dimensions that affect firms' innovation performance including, for example, other types of external (e.g., other types of distance such as economic and geographic distance, as in (Berry et al., 2010) and internal liabilities (e.g., acquirers' technological deficiencies), as in (Liang et al., 2022).

Third, our sample included cross-border acquisitions initiated by Chinese firms over five years from 2013 to 2017. The outcome variable, innovation performance, is calculated by the change in the rate of patent applications three years after and three years before the acquisition. However, it may take longer for some firms to integrate knowledge absorbed from overseas markets, and therefore in some cases this temporal period may be too short to detect innovation achievements. Although we cannot expand the time coverage of analysis due to data availability, this is an opportunity for future studies, including the possibility that knowledge absorption varies across industrial sectors and potentially could shorten over time due to improvements in the understanding of knowledge absorption by EMNEs.

6. Concluding remarks

This study explores how EMNEs leverage LoE in strategic asset-seeking acquisitions to boost innovation performance. Using a configurational approach, we examine the synergy between EMNEs' internal and external LoE, focusing on overcoming these emergingnesses to achieve strategic innovation goals. Our results present a theoretical framework that links various scenarios of LoE with innovation outcomes, articulating the complexities of LoE and its impact on EMNEs' innovation performance. The findings suggest that optimal innovation results from acquisitions occur under low LoE and emphasize the importance of utilizing country-specific advantages, especially against significant external LoE.

CRediT authorship contribution statement

Xinli Huang: Conceptualization, Methodology, Project administration, Writing – original draft, Writing – review & editing, Formal analysis, Investigation. **Yanze Liang:** Writing – original draft, Writing – review & editing, Conceptualization, Data curation. **Don Webber:** Supervision, Writing – review & editing.

Data availability

Data will be made available on request.

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