Cross-Border Acquisitions by Emerging Country Multinationals: Asset Exploitation or Asset Augmentation

Abstract

Since the last decade, the word has witnessed a rise in the internationalisation of multinationals enterprises from the emerging markets (EMNEs). The traditional perspective of internationalisation puts forward asset exploitation as a prime driver for internationalization. However, asset augmentation was further acknowledged as a determinant of the EMNE's internationalization as the EMNE generally lacks firm specific ownership advantages (FSAs). In this respect, the extant literature presents a 'chicken or egg puzzle'. Further, the extant literature lacks empirical evidences that address questions such as, does the EMNE lack FSAs? Or what types of FSAs are available to an EMNE firm?

Addressing these questions in the context of asset augmentation activities undertaken by Indian MNEs through foreign acquisitions, we find that the EMNE having absorptive capacity and financial capability internationalizes to procure technological assets through acquisitions.

Key words: Firm Specific Assets (FSA), Pooled OLS, Asset Augmentation, Foreign Acquisitions, CBA, India, EMNE

Introduction

The phenomenon of internationalization of EMNEs often through Cross-border Acquisitions (CBAs) have significantly increased in recent years (UNCTAD, 2011) with an average rate of 26 per cent per annum (ATKearney, 2007). In 2007 alone, EMNEs invested about US$ 300 billion as FDI (Sauvant, 2012). Rapid internationalization of EMNEs due to rising CBAs has also caught attention of researchers (Luo, 2010). However, despite the rising phenomenon of internationalization of EMNEs through acquisitions, 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). The asset exploitation perspective along with internalization theory (Buckley & Casson, 1976) became the foundation for the most popular 'Eclectic framework' of internationalization (Dunning, 1977, 1981). Accordingly, the firm having firm specific ownership advantages (FSAs) internationalise by undertaking foreign direct investment (FDI) in a foreign market by successfully outcompeting local firms in the host country. Another associated explanation is that the EMNE leverage the FSAs to overcome the liabilities of foreignness in a host country (Zaheer, 1995).

However, scholars differ on the role of FSAs in internationalization of the EMNE. Studies (Child & Rodrigues, 2005; Mathews, 2002b, 2006; Santangelo, 2009) challenge application of the 'Eclectic framework' arguing that the EMNE lacks enough FSAs required to internationalize successfully. This view indicates that the EMNE does not internationalize for exploiting their existing FSAs, rather EMNEs internationalize to augment FSAs (Luo & Tung, 2007). Dunning (1998; 2006, p.1) also acknowledged that the EMNE "might be prompted to invest in more advanced countries to access or augment, rather than to exploit their ownership advantages". Thus, the asset augmentation strategy aims to enhance capability, to acquire knowledge and resource and to overcome the competitive disadvantages faced by the EMNE.

A consolidated view posits that one perspective does not preclude the other (Yiu, Lau, &

Bruton, 2007). Dunning (2006, p.1) argued that the EMNE “had to possess some unique and sustainable resources, capabilities or favoured access to markets, which, if they chose to engage in asset augmenting foreign direct investment, they might expect to protect or augment.” Thus, in internationalization of a firm asset exploitation and asset augmentation can go together.

The asset augmentation motive of the EMNE is more pertinent to CBAs phenomenon, as the strategic intent of acquisitions undertaken by the EMNE is to acquire strategic assets (Rui & Yip, 2008) as against the Greenfield foreign direct investment where the intent is to build up from scratch than to augment. However, the literature still does not answer as to what kinds of FSAs are exploited by the EMNE. This is especially important as the extant literature argues that the EMNE may not have FSAs sufficient enough for internationalisation. Taking the case of acquisitions undertaken by Indian MNEs, this paper examines different FSAs that the EMNE possesses that support its asset augmentation strategies through acquisitions. Thus, this paper contributes to the international business literature by untangling the ‘chicken or egg’ puzzle, i.e. if the EMNE lacks competitive advantages then how does it internationalise to augment assets at the first place?

Foreign acquisitions undertaken by Indian MNEs present a good case of study given that: 1) many Indian MNEs have made quite prominent acquisitions in recent years; 2) making foreign acquisitions many Indian MNEs have become the world’s leading firms, such as Bharti Airtel, Tata Steels, and Suzlon (Airtel, 2012; MIT, 2012; Suzlon, 2012; UNCTAD, 2007); 3) India stands out in comparison to other emerging economies, such as Brazil, Russia and China in terms of number of foreign acquisitions undertaken by Indian MNEs (KPMG, 2012); and 4) Majority of Indian outward FDI flows through foreign acquisitions (Athukorala, 2009).

Literature Review

Internationalisation by Asset Exploitation

Rooted in the internalization (Buckley & Casson, 1976) and market imperfection perspective (Caves, 1971; Hymer, 1976) the traditional theoretical framework known as the ‘Eclectic framework' (Dunning, 1977, 1981) suggests that the firm internationalizes by exploiting their FSAs. The role of FSAs is to provide competitive advantage to the firm, sufficient to compete successfully with the local firms in a host market.

However, the extant literature often argues that given the country of origin effect (Wang, Clegg, & Kafouros, 2009) EMNEs may lack typical resources required to succeed in foreign markets (Child & Rodrigues, 2005; Isobe, Makino, & Montgomery, 2000; Mathews, 2006). Emerging economies are typically characterized by weak human and entrepreneurial resource (Khanna & Palepu, 2000; Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, 2003), weak technological resources (Dunning, Kim, & Park, 2008), and weak marketing resources (Duysters, Jacob, Lemmens, & Jintian, 2009). Therefore, the EMNE seeks to augment the strategic assets for compensating competitive advantages it generally lacks (Dierickx & Cool, 1989; Mathews, 2006) and sees internationalisation as a "springboard" in its growth (Luo & Tung, 2007, p.481).

Bratlett and Ghoshal (2000, p.134) observed that the EMNE firm not only lacks the usual resources possessed by their rival first world MNEs, but are also distinguishable from "strategic, organisational and management diversity". The EMNE usually operates in low value adding activities because of lack of technological and managerial capabilities and it generally internationalises by exploiting its home CSAs (Lall, 1983; Lecraw, 1983, 1993; Wells Jr, 1983). The argument here is that the EMNE differ sharply from the first world MNE that generally leverage and exploit FSAs in foreign country.

Asset Augmentation: EMNEs Internationalize to Augment Asset

In order to compensate for the deficiency in resources required for building competitiveness in a host market, the EMNE seeks to acquire strategic assets. Buckley, Enderwick, Forsans, & Munjal (2011) further argue that the EMNE firm does not looks for just any resource rather it looks for complementary strategic asset. In the context of Indian MNEs Buckley et al., (2011) observed that the knowledge deficient Indian MNEs seek to acquire knowledge based resources from their network of foreign suppliers.

EMNEs use internationalization 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 acquiring such strategic assets is to compensate for the EMNE's competitive disadvantages. MNEs from the 'Newly Industrialized Countries' (NIC) also followed asset augmentation strategies in their internationalization during 1980's (Makino, Lau, & Yeh, 2002; Mathews, 2006).

In case of EMNEs, acquisitions are also generally observed to be made for asset augmentation motives (Ramamurti, 2009a), such as to acquire technology (Mutinelli & Piscitello, 1998), strategic resources (Deng, 2009) or a brand (Sauvant, 2005). Usually EMNE is deficient in such strategic assets and capabilities since these are not generally available at home. The home economies are typically characterized by surplus labour, lower operating costs, and large unsaturated markets (Lecraw, 1983; Wells Jr, 1983). Though, these economic conditions at home economies offer opportunities to grow, but lower level of development at home poses a limitation for the availability of knowledge-based resources at home. In other words, internationalization of the EMNE is not triggered by push factors but by pull factors, such as desire to acquire advanced technology and managerial skills (Luo & Tung, 2007). As a result acquisitions from four large emerging markets, Brazil, Russia, India and China (also called BRIC countries), targeted in developed countries accounted are rising consistently (KPMG, 2012).

The EMNEs' move to acquire strategic assets allow them to leapfrog and establish rapidly in the global competition(Athreye & Kapur, 2009; Mathews, 2002b). EMNEs prefer acquisition over the normal route of augmenting assets, as some times the strategic assets and capabilities required by EMNEs are not available through the market transactions (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2009).

Thus, recent developments in the extant literature offers various explanations for the asset augmentation strategies of the EMNE. However, it does not offer a plausible explanation as to what types of FSAs are possessed by the EMNE which enables it to undertake acquisition at the first place. In the absence of competitive advantages it is difficult to internationalise to seek strategic assets. This is just like a 'chicken or egg' puzzle in the international business literature.

In recent years, it has been witnessed that EMNEs are growing in number and size. The number of EMNEs in the Global 500 list has doubled in the last 5 years and the capitalisation of many EMNEs runs in billions of dollars (PWC, 2010). Ramamurti (2009a, 2012) argues that it is not plausible that EMNEs will "have market capitalisation 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 the *first world* MNEs. This view is also supported by Dunning, Kim and Park (2008).

Ownership of FSAs is necessary for the internationalisation of the firm which emerges out of resources available to the firm (Barney, 1991; Daft, 1983; Luo, 2000). Following the interpretation of resources given in earlier studies (Amit & Schoemaker, 1993; Barney, 1986, 1991, 1996; Tseng et al., 2007; 1984, 1995), where resources mean inputs that can be utilised for the growth of the firm, the following section examines the role of different resources in the internationalisation of the EMNE.

Hypotheses Development

The concept of FSAs is consistent with the 'Resources Based View' in the strategy literature (Barney, 1991; Sun, Peng, Ren, & Yan, 2012). The resources could be tangible or intangible, such as availability of financial resources, managerial resources, marketing resources, technological resources, or ownership by conglomerate business group (Dunning, 1988). Further, previous (trade and investment) experience in foreign market can also be valuable asset contributing for foreign expansion of the firm (Johanson & Vahlne, 1977). Using these different types of resources identified in the extant literature we build following hypotheses. Further, in the last hypothesis we included the asset augmentation motive of the EMNE.

Financial resources

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

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

Thus, a profitable firm which generates finance 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 low debt (Kumar, 2010; Staney, Ramarathinam, & Bhoir, 2008) cash rich (Knowledge@Wharton, 2006) firms. It can be expected that the internationalisation of Indian MNEs is positively affected by the availability of the firm's own financial resources. Thus, it is hypothesised that:

> **Hypothesis 1**: Outward FDI by Indian MNEs is positively related with the firm's own financial resources.

Technological resources

Technological resources are generally referred to as technological assets, such as technical know-how, patent, and design. 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, bring 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 and FDI to maximise the sale of innovative products (Kafouros, 2008; Tsang, Yip, & Toh, 2008).

Though, the firm can augment technological assets it lacks (Luo & Tung, 2007) but to benefit from sourced technology it must have absorptive capacity. Technological resources also represent the firm's absorptive capacity, i.e., the firm' s own research intensity and capabilities with which it integrates external technological assets in its operations (Cohen & Levinthal, 1990). Thus, technological resources are quite critical in the internationalisation of the firm.

Chittoor, Sarkar, Ray, & Aulakh (2009) argue that Indian MNEs possess essential absorptive capacity. Moreover, Indian firms are capable to reverse engineer, imitate and adopt technology. These capabilities of Indian MNEs has also been highlighted in recent research undertaken in the context of Indian pharmaceutical industry (see for example Athreye & Kapur, 2009). Thus, it is anticipated that Indian MNEs have required technological resources that can facilitate the firm's internationalisation. Hence, the hypothesis is:

> **Hypothesis 2**: Outward FDI by Indian MNEs is positively related with the firm's own technological resources.

Marketing resources

Marketing resources are those resources that are used to build brand reputation, customer loyalty, market orientation, and product differentiation (Hooley, Greenley, Cadogan, & Fahy, 2005). Marketing resources help in the firm's internationalisation (Erramilli, Agarwal, & Kim, 1997; Kotabe, Srinivasan, & Aulakh, 2002). They are valuable resource that can help the firm to overcome the liabilities of foreignness arising in foreign markets. For instance, a strong marketing campaign may help the firm to establish its brand in a foreign market. Also, an internationally recognised brand often acts as a vehicle for further internationalisation of the firm when the firm carry over its known brand from one market to another.

Further, market experience gained in a foreign market also helps the firm to internationalise in similar foreign markets (Eriksson, Johanson, Majkgard, & Sharma, 1997; Johanson & Vahlne, 1977). Thus, marketing resources may significantly affect internationalisation of the firm. The impact of marketing resources on the firm's internationalisation has become more important with recent technological advancements, increasing levels of globalisation, and market integration across countries and regions (Chung, 2003). Thus, it can be hypothesised that:

Hypothesis 3: Outward FDI by Indian MNEs is positively related with the firm's own marketing 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 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. Utilising managerial experience, the entrepreneur takes decision to internationalise. Though internationalisation strategies devised by the entrepreneur are influenced by resources available to the firm (Andersson, 2000), an efficient manager seeks to make the best use of resources available to the firm through their efficient utilisation and appropriate allocation.

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 the EMNE usually operate in low value adding activities because of lack of technological and managerial capabilities (Bartlett & Ghoshal, 2000). However, in recent years it has been seen that Indian MNEs are successfully engaging into dynamic modern technology intensive industries. It is still arguable that Indian MNEs are managing well in these industries. It is further arguable that Indian managers and entrepreneurs have the ability to deliver "value for money" and skills to operate in multicultural settings given the large geographic and cultural diversity in India (Kumar, 2008, p. 251). Thus it is hypothesised that:

Hypothesis 4: Outward FDI by Indian MNEs are positively related with the managerial resources of the firm.

Business group

Business group or enterprise group is a diversified enterprise generally owned and managed by a family. Business groups are dominant forms of business in many emerging economies (Tan & Meyer, 2010). Research finds that emergence of business group is related to the institutional structure in a country (Khanna & Palepu, 1999; Peng & Heath, 1996). In an emerging economy, appearance and supremacy of business groups and family firms is mainly attributed to high degree of market imperfection and existence of institutional voids (Khanna & Palepu, 1999; 2000; Meyer et al., 2009; Peng, 2003).

In India, various business groups are actively operating, this includes the world famous Tata group. Most of Indian business groups are diversified in various industries and highly internationalised at the same time; for instance, Tata group is operating in 28 industries with presence in about 80 countries (Tata, 2012).

Business groups are normally considered as a pool of resources which can promote internationalisation of the firm affiliated with them (Yiu, Bruton, & Lu, 2005). Literature indicates that a firm may internationalise by leveraging group resources (such as, Douma, George, & Kabir, 2006; Guillén, 2003; Tan & Meyer, 2010; Yiu et al., 2005). Besides pool of resources, synergy between different subsidiaries of a business group can also facilitate internationalisation of the firm; for instance, synergy between subsidiaries of Tata group helped them to internationalise – Tata steel provides steel for cars produced by Tata Motors. Thus, a business group affiliation can help in different ways in the firm's internationalisation. Therefore, it is hypothesised that:

> **Hypothesis 5**: Outward FDI by Indian MNEs is positively related with the firm's affiliation to a business group.

Asset augmentation and EMNE's internationalisation

In contrast to the asset exploitation view it is often argued that the EMNE internationalises to augment strategic assets (Luo & Tung, 2007). The EMNE seeks to acquire strategic assets to compensate for deficiency of resources which it requires for building competitive advantages. Makino, Lau and Yeh (2002) noticed that during 1980's MNEs from 'Newly Industrialised Countries' also internationalised to augment strategic assets.

Acquisition is an appropriate and popular strategy for asset augmentation activities (Ramamurti, 2009b) particularly, for acquiring technological know-how as it provides control and ownership of strategic assets to the firm (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) also emphasised the role of ownership based control in FDI decisions. Further, many a times strategic assets are not available through market transactions (Gubbi et al., 2009).

International business literature suggests that the EMNE aims to augment different types of strategic assets, such as technology (Mutinelli & Piscitello, 1998), brand (Sauvant, 2005), and strategic resources (Deng, 2009). The EMNE is generally poorly endowed in these strategic assets and capabilities because these are not generally available at home (Makino et al., 2002) due to lower level of development (Ramamurti, 2009b). For instance, the EMNE internationalises in pursuit of knowledge based technological assets (Luo & Tung, 2007; Yeoh, 2011) which are not available in technologically lagging emerging economies.

Further, emerging economies are typically characterised by surplus labour, lower operating costs, and large unsaturated markets (Lecraw, 1983; Wells Jr, 1983). Though, these economic conditions at home offer opportunities to grow domestically but lower level of development and lack of availability of knowledge-based resources restricts international competitiveness of the EMNE. Thus, the internationalisation of the EMNE is triggered by pull factors (rather than push factors), such as desire to acquire advanced technology and managerial skills (Luo & Tung, 2007). Consequently, acquisitions from emerging countries targeted in developed countries are rising consistently (KPMG, 2012; Stucchi, 2012).

The move to acquire strategic assets allows the EMNE to leapfrog competition and establish rapidly in the global market (Athreye & Godley, 2009; Mathews, 2002a). 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". Pearce (1999) also suggested that the MNE with geographically dispersed production units and laboratories is likely to possess knowledge-based competitive advantages.

During 1980's many MNEs from the 'Newly Industrialised Countries'; for instance Samsung, LG, and Haier, followed asset augmentation strategies to leap frog the competition (Makino et al., 2002). Today these multinationals have been internationalised successfully by competing with traditional MNEs (Mathews, 2006).

Like other EMNEs, Indian MNEs are also actively seeking different types of strategic assets from foreign markets. Sauvant (2005) and Kumar (2008) argue that Indian MNEs are actively seeking acquiring technology and brands aboard. Acquisition of Land Rover and Jaguar (in the UK) by Tata Motors; and acquisition of Tetley tea (in the UK) and Eight O'clock coffee (in the USA) by Tata Beverages are classic examples of acquisition for seeking technological and market based strategic asset by Indian MNEs. Thus, it is hypothesised that:

Hypothesis 6: Outward FDI by Indian MNEs is positively related with the asset augmentation activities of the firm.

Methodology

Data for this study has been 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 the firms engaged in making foreign acquisitions. Where TOB covers entire population of Indian firms making foreign acquisitions; Prowess provides extensive financial and background information of the firm. Both Thomson One and Prowess database are widely used databases in the IB literature. Prowess is considered substantially richer than the global corporate database, 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 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 acquisition. Hence, our dependent variable here is foreign acquisitions made by Indian MNEs measured in value of acquisitions and count of acquisition. Thus, we have two dependent variables, to be explained by a set of FSAs and the motive of acquisition. Our models are follows:

$$\ln VFA_{it} = a + b_1 FR_{it} + b_2 \ln TR_{it} + b_3 \ln MtR_{it} + b_4 \ln MnR_{it} + b_5 GroupD_{it} + b_6 KSD_{it} + b_7 InFDIExp_{it} + b_8 InITExp_{it} + b_9 \ln SIZE_{it} + b_{10} \ln AGE_{it} + b_{11} TimeD + u_{it}$$

$$\ln NFA_{it} = a + b_1 FR_{it} + b_2 \ln TR_{it} + b_3 \ln MtR_{it} + b_4 \ln MnR_{it} + b_5 GroupD_{it} + b_6 KSD_{it} + b_7 InFDIExp_{it} + b_8 InITExp_{it} + b_9 \ln SIZE_{it} + b_{10} \ln AGE_{it} + b_{11} TimeD + u_{it}$$

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; TR_{it} is technological resources of ith firm in t time; MtR_{it} stands for marketing resources of ith firm in t time ;FR_{it} stands for financial resources of ith firm in t time; MnR_{it} stands for managerial resources 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); $ITExp_{it}$ represents international trade of the ith firm in t time; FDI_{it} represents FDI stock of the ith firm in t time; KSD_{it} represents a dummy variable for motive of acquisition of ith firm in t time (which takes value 1 if the firm makes acquisition for seeking knowledge group, 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) and finally, u_{it} is a stochastic random error for ith firm in t time; a, b_1, b_2, $b_{3,\ldots}$ $b_9$and b_{10} are usual regression coefficients, and the prefix ln indicates the natural log.

We control for the firm and time heterogeneity. Firm heterogeneity is controlled through age and size of the firm. Firm's size and firm age are standard controls and has been previously been used in extant literature. We extend this control to incorporate the international business experience of the firm through international trade, and existing overseas investment of the firm. Control for exports and existing overseas investment is required because it is expected that the firm having exporting or previous overseas investment would benefit from its learning and linkages in foreign markets.

Time effect is controlled by incorporating time dummies for each year under study. Control for 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. A good example here is gradual policy changes in the overseas investment policies of India. Thus, controlling for time effects automatically controls for all time related changes. Figure 1 gives the conceptual framework.

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

During the period under study, i.e., 2000-2007, 315 Indian MNEs firms made 623 acquisitions in 82 countries valuing about 48.55 billion. We accumulated the acquisitions made by 315 Indian firms by year and created a pooled data set. Generally, acquisitions are not a regular activity for most of the acquiring firm. A firm makes a foreign acquisitions once in every few years, in our data sample the average acquisition by a firm is about 2 (623 acquisition by 315 firms) in 8 years' time. This kind of dispersion in data is not best captured by the panel data estimation techniques, such as the random effects because panel data estimation procedure assumes both cross-sectional and time series relationships within the data. In this situation, the best estimation technique for our data set is pooled OLS. However, for comparison we also run random effect regression[i] and found that the OLS estimations were more efficient than panel data estimates.

Results and Discussion

The OLS estimates, correlation matrix and descriptive statistics of dependent and independent variables are all presented in tables 1, 2 and 3. It can be seen in the table 1 that results for two regression models used to test the hypothesis are consistent and robust.

Our hypothesis 1 on financial resource and hypothesis 6 on knowledge seeking motive are fully supported. However, hypothesis 2 on technological resources is partly supported. Rest hypotheses 3, 4 and 5 do not find any support. These results reveal an interesting fact that the financial resources support the foreign acquisition made by EMNEs (Hypothesis 1). Indian MNEs are building capabilities of foreign acquisition by accumulating own financial resources as most of the Indian firms have low level of debts, high profitability and strong cash flows (Knowledge@Wharton, 2006). In the globalising world various opportunities come across where investment can be made out of the home economy and a firm having its own financial resources can promptly exploit such opportunities by undertaking outward FDI.

Mathews (2006) call EMNEs as ‘latecomers’ in the world economy due to late liberalisation of their home economies. Until these economies followed liberalisation policies the EMNE did not face much international competition at home. This can be argued that as a result EMNE could not build or accumulate FSAs that could provide global competitiveness to these firms. However, protectionist policies followed at home (before liberalisation) allowed the EMNE to serve their domestic markets in a monopolistic way. Notably, all typical 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. In some cases these firms have emerged as conglomerate business groups by internalising market (Khanna & Palepu, 1999; Khanna, Palepu, & Sinha, 2005). Generally these firms have generated financial surpluses from their domestic operations but still lack typical resources, such as marketing resources, managerial skills and technological know-how that is acquired 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 marketing (Hypothesis 3) and managerial resources (Hypothesis 4) as a source of competitive advantages. However, it is found that these resources are not providing competitive advantages to Indian MNEs. This supports the fact that the EMNE lacks usual FSAs (Child & Rodrigues, 2005; Makino et al., 2002; Mathews, 2006; Ramamurti & Singh, 2009). The insignificance of Hypotheses 3 and 4 supports Madhok and Keyhani's (2012, p.28) view that Indian MNEs do not have those resources "that traditionally been considered to be the source of extraordinary rents, as is the case, for instance, for technologies or brands that are argued to underpin a monopolistic firm-specific advantage". Hence, Indian MNEs are using financial resources to accumulate these traditional rent generating resources.

Hypothesis 6 on strategic asset augmentation is supported with expected positive sign. In this study strategic asset represents marketing and technological assets. Thus, the significance of Hypothesis 6 indicates that the motive of Indian MNEs is to acquire marketing and technological assets.

Post-independence Indian MNEs were not allowed to import technology (Desai, 1972), a factor that prevented modernisation of Indian MNEs. Further, protection during the post-independence period also prevented Indian MNEs to develop globally known brands. Consequently in post liberalisation period, when Indian MNEs are allowed to undertake FDI, strategic asset seeking FDI seems to have become a strategy to overcome deficiency in technological and marketing assets. The rising number of acquisitions in the industrially advanced economies also indicates that Indian MNEs are looking for marketing and technological strategic assets which are usually found in developed countries (Athreye & Kapur, 2009; 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 strategic 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 are influenced by country of origin effect (Duysters et al., 2009; Wang et al., 2009).

Foreign knowledge has been found as a key success factor in the internationalisation of Indian firms in many knowledge intensive industries, such as information technology, pharmaceutical, automobile and telecommunications. There are several examples where acquisition is undertaken to augment strategic assets for instance, Wockhardt, a leading Indian Pharmaceutical firm acquired Rhein Biotech, a German firm, to cover up the technological capabilities it required to compete and 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 a global status, large production scale, and capability to build “new competitive advantages” by combining foreign technology with low production cost base at home (Satyanand & Raghavendran, 2010). Tata and Suzlon are brilliant examples to quote. Tata Steel after acquiring Corus gained capacity of large scale production of steel and became the fifth largest steel producer in the world (revenue) (UNCTAD, 2007). Tata Motors after acquiring Land Rover and Jaguar is planning to start production 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).

Acquisition strategies of Indian MNEs seem to be in alignment with the strategies of traditional multinational enterprises, which establishes 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 of 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.

However, in order to gain from the foreign technology, the firm should have absorptive capacity (Cohen & Levinthal, 1990; Zahra, Matherne, & Carleton, 2003). Since, this study finds an intermittent support for the firm's own technological resources (Hypothesis 2) it is argued that Indian MNEs have some degree of absorptive capacity, which helps Indian MNEs to benefit from the foreign technological assets. Significance of motive to acquire know-how based strategic assets along with the (partial) significance of the firm's own technological resources, supports the fact that Indian MNEs are aiming to augment and exploit foreign know-how by utilising their own research and development capabilities. This has resulted in success of many Indian MNEs in the pharmaceutical industry (Chittoor et al., 2009; Pradhan & Sahu, 2008).

Firm's affiliation to business group (Hypothesis 5) is also insignificant. Since, business groups are pool of resources (Khanna & Palepu, 2000) and their main role is to provide resources to the firm to aide its internationalisation, it seems that the significance of business groups has been absorbed by the significance of resources (financial, technological, managerial and entrepreneurial) that are separately included in the model.

Control variables include variables that can capture firm's heterogeneity, such as age of firm, size of firm, and international experience from trade and investment. Among them only age of firm and previous OFDI experience are significant. These results indicate 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 than greenfield investment.

Learning from previous outward FDI positively affect the acquisition activities but previous international trade experience does not make a difference. However, this is subject to further examination.

Summary and Conclusion

This paper analysed the asset exploitation and asset augmentation motives of the EMNE in the context rising phenomenon of EMNEs internationalisation through CBAs. Taking a sample of acquisitions made by Indian MNEs, it finds support for the conventional market imperfection perspective embedded in the *OLI framework* which advocates that the firm adopts asset exploitation strategies in the foreign market. It finds that the financial capabilities and absorptive capacity of Indian MNEs have enabled them to undertake CBAs to acquire technological assets.

Availability of financial resources to Indian MNE could be an outcome of the home conditions, such as late liberalization and huge market at home (Buckley, Enderwick, Forsans, & Munjal, 2013). Thus, the home market conditions shape the FSAs of EMNEs (Elango & Pattnaik, 2007; Tan & Meyer, 2010; Yiu et al., 2007). However, this subject warrants further examination and could be a lead for future research.

We also found that Indian MNEs have absorptive capacity and are augmenting complementary assets, such as foreign knowledge to supplement their know-how (Lall, 1983; Tolentino, 1993). Acquisition is a good mode through which EMNEs can undertake asset augmentation activities, as in many cases strategic assets are not available to these firms through market transactions (Gubbi et al., 2009).

The contribution of the paper rests in untangling entwined relationship between 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. The contribution of this paper lies in providing a framework for EMNE internationalisation and in finding support for Dunning (2006) argument that asset exploitation and asset augmentation activities can go together. Further, we find support for Dunning (1995, 2006) argument that FSAs can include internally generated assets and asset from other institutions with which firm has cooperative relationships (Yiu et al., 2007).

The contribution of this paper also lies in identifying the EMNE's decision to undertake CBAs in order to acquire strategic assets which are complementary to the EMNE's own assets. This further confirms to the findings of Buckley et al. (2011) and seeks to enlarge the asset-exploitation perspective (Caves, 1971; Hymer, 1976) integrated within the popular OLI framework (Dunning, 1977, 1981).

Table 1: Correlation Matrix

Dependent Variable	Coefficients	
	Acquisitions No	**Acquisitions Value**
Marketing Intensity	-0.0128714 (0.0196648)	-0.0398477 (0.0331715)
Technological Intensity	0.0233368 (0.0155923)	0.0480301 (0.0263019)*
Financial Resources	0.1303068 (0.0316244)***	0.18003 (0.0533456)***
Business group	-0.1303951 (0.1296383)	0.0707085 (0.2186805)
Managerial Skills	-0.0172385 (0.0156648)	-0.0028805 (0.0264242)
Knowledge seeking	0.4885468 (0.1518944)***	0.7692825 (0.2562233)***
Firm Size	-0.028556 (0.0300306)	-0.0532776 (0.0506571)
Firm Age	-0.2232146 (0.1104625)**	-0.3670209 (0.1863339)**
Outward FDI Experience	0.0375975 (0.0114387)***	0.0586297 (0.0192953)***
International Trade Experience	0.0088672 (0.014441)	0.0381611 (0.0243599)
Time and Industry Control	included	included
Constant	-3.616304 (0.4081836)***	-6.691598 (0.6885451)***
R Square	0.1275	0.1068
F	19.08***	15.60***
Observations	2237	2237

Note: *sig at 0.1; ** sig at.0 5 and *** sig at .01
Standard Errors are reported in parenthesis

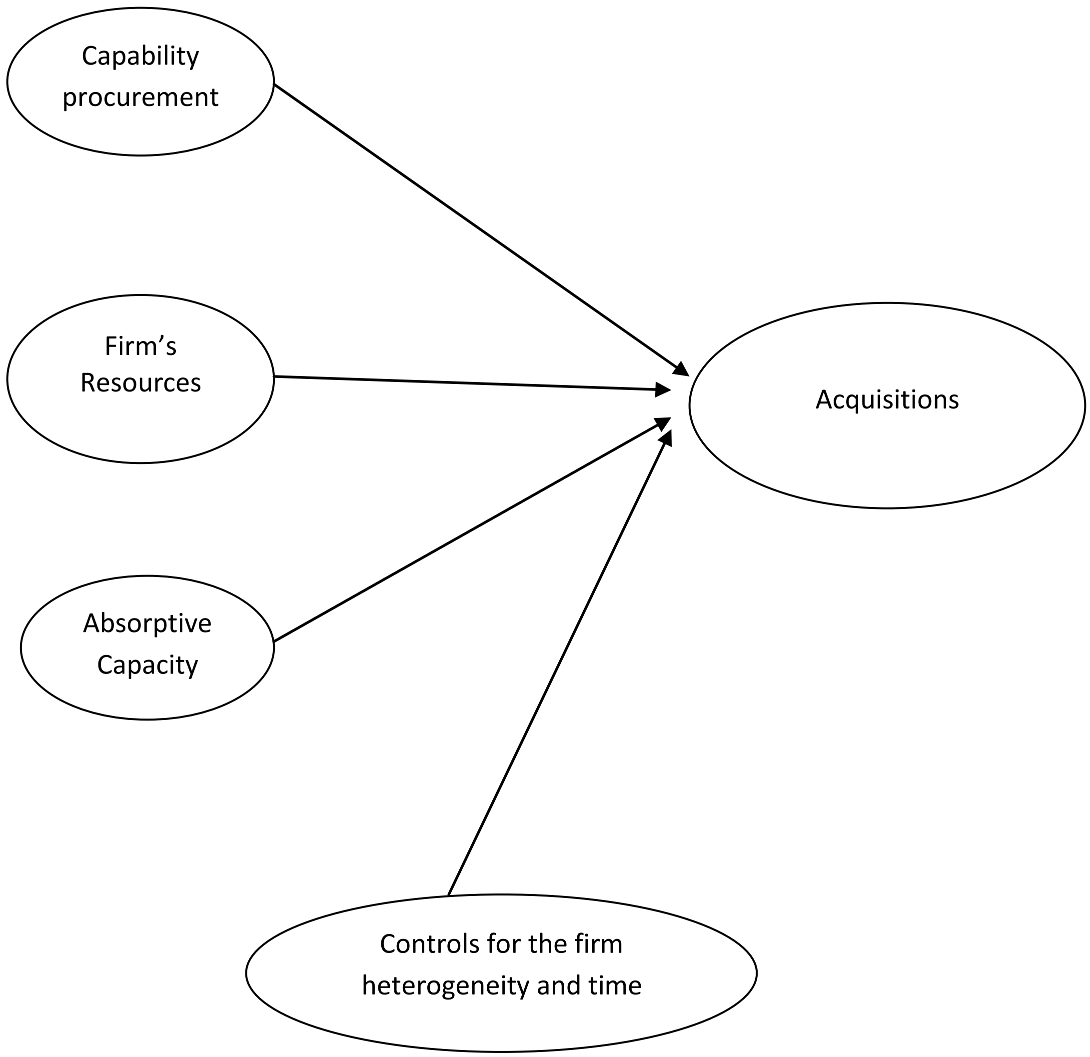
Table 2: Descriptive Statistics

		1	2	3	4	5	6	7	8	9	10
1	Firm Age	1									
2	Capital	0.152	1								
3	Marketing Intensity	-0.031	0.007	1							
4	Technology Intensity	0.004	-0.041	-0.010	1						
5	Financial Resources	0.181	0.646	-0.005	-0.015	1					
6	Exports	0.071	0.311	-0.009	0.021	0.633	1				
7	Business group	0.275	0.222	0.040	0.036	0.135	0.075	1			
8	Director's Remuneration	0.094	0.211	-0.004	0.148	0.415	0.584	0.111	1		
9	OFDI	0.184	0.238	-0.008	0.034	0.248	0.060	0.113	0.018	1	
10	Knowledge Seeking	0.239	0.064	-0.022	0.074	0.118	0.140	0.239	0.121	-0.012	1

Table 3: Results

Variable	**Mean**	**Std. Dev.**	**Min**	**Max**
Firm Age	30.05	19.81	3	115
Capital	76.34	208.98	0	2784.62
Marketing Intensity	10.11	117.15	0	3941.66
Technological Intensity	0.61	2.029	0	26.58
Financial Resources	119.21	562.73	-2173.9	10301.50
Exports	251.52	1622.92	0	58531.32
Business group	0.64126	0.47	0	1
Director's Remuneration	0.59	2.66	0	55.41
OFDI	78.23	459.43	0	6430.18
Knowledge Seeking	0.1988	0.39918	0	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.