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RESEARCH ARTICLE

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Learning Before Making the Big Leap

Acquisition Strategies of Emerging Market Firms

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Abstract:

- In the past two decades, emerging market countries have opened their markets, resulting in increasing competition from foreign firms. To cope with the influx of new competition, these firms need to develop skills and competencies on par with their new international rivals. One of the strategies employed by firms in these markets is the use of serial acquisitions to build capabilities and has been referred to as the springboard perspective.
- We use a sample of 175 acquisitions made by Indian firms during the period 2000–2006. Findings support the underlying premise of the study that firms acquire targets serially but of increasing value in a sequential manner to learn and build capabilities. By acquiring targets in this manner, these firms seek to minimize risk as well as optimize their ability to learn from the acquisitions.
- The results of this study offer broad support for the recently advanced springboard perspective which expands the Uppsala model to include acquisitions. While unconventional, this strategy is a potential option for emerging market firms to acquire competencies to cope with the rapid increase in competitive pressure.

Keywords: Emerging market MNCs · Acquisitions · Internationalization · Springboard perspective · Emerging markets · India

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Introduction

Traditionally, most emerging markets have been highly regulated, with restricted competition and largely closed to foreign entry. Over the last two decades, a key change in many of these markets has been a clear transition to a much more liberal regulatory regime which encourages competition, especially from foreign competitors in their home markets. As a result, firms from these economies face challenges to increase their competitive strengths to compete. Since these firms operated largely with minimal competition in many product segments wherein a pent-up demand existed for most offerings (Aulakh et al. 2000), they faced several barriers to developing competencies to compete with international rivals internally (Kriauciunas and Kale 2006). In many instances, incumbent firms hold dominant market positions and possess several competitive advantages as well as significant institutional leverage over foreign firms (Khanna and Palepu 2006; Gaur and Kumar 2009). While these advantages can be leveraged in the near term in domestic markets or other emerging markets, they are not sufficient for success in global markets where these firms seek to operate in the current (third) wave of internationalization (Ramamurti and Singh 2009).

Some firms which operate internationally held a market position largely limited to operations in narrow market niches or as suppliers in host countries, and international revenue represented only a minor portion of their revenue generation (Elango and Pattnaik 2007). The need for expansion into new value activities to compete effectively posed challenges, as it required adaptations in strategy, resources, and organizational competencies (Welch and Luostarinen 1993; Calof and Beamish 1995). Therefore, emerging market firms face an unique challenge in developing front-line capabilities to compete in domestic as well as demanding foreign markets (Chittoor et al. 2009). Chittoor et al. (2009) summarizes this scenario by claiming reforms "…fundamentally changed the competitive landscape of the industry, especially for domestic firms, requiring them not only reconfigure their resources and capabilities, but also to acquire new capabilities to survive…" (p. 187). Therefore, an interesting question for scholars and practitioners would be to gain a better understanding of how these firms adapted to the changed competitive situation.

Given the radical change in their home markets, many firms which held dominant market positions faced two pressing options to ensure their future survival. First, they needed to develop their competencies on a par with international rivals to compete with them or risk losing their existing competitive positions in the home market. Additionally these firms recognized that their home markets, "… will increasingly absorb output …of technologically superior products…", wherein "…Many slow-growing companies with low margins can be turned into fast-growing, high-margin enterprises …in developing countries" (Kumar 2009, p. 166). Second, it forced many of these firms to look to developed markets for growth and opportunities to develop capabilities (Hoskisson et al. 2004).

These circumstances led to well-managed and financially strong local firms with a global strategic intent to pursue a strategy of building competencies through acquisitions on a par with international rivals rather than wait it out hoping they will maintain market position (Child and Rodriguez 2005; Rui and Yip 2008; Deng 2009). For instance, Gardiesh et al. (2007) report that many Chinese firms believe they need to acquire western brands and distribution systems to succeed. Kumar (2009), in his exposition of Hindalco's strat-

egy, points out that it went seeking acquisitions (via a competency stairway) to "…obtain competencies, technology, and knowledge essential to their strategy…" (p. 116) "…that will help them become world leaders…" and develop its capability to be the best in its industry worldwide.

Recently, this approach has been conceptually developed as the springboard perspective (Luo and Tung 2007), wherein firms use foreign acquisitions to acquire strategic resources and reduce restraints created by institutional and market conditions by their home markets. Luo and Tung highlight that one primary motivation for undertaking this risky approach is to overcome late mover advantage and competitive weakness in home and foreign markets. For example, within the span of 1 year, Ranbaxy of India acquired eight foreign companies (Chandler 2007).

In this paper, we focus on acquisition strategies adopted by firms to develop competencies to compete in this new competitive landscape. India is one of the largest emerging markets which has adopted market oriented economic reforms and encourages inward FDI. The Indian government, in addition to introducing market reforms, also reduced financial control of overseas investments by firms. These reforms also enabled firms from India to develop capabilities by acquiring new resources to compete in the global market (Nayyar 2008). These firms wanted to locate resources to compensate for competitive disadvantages and exploit resources to leverage competitive advantages (Rui and Yip 2008). As a result, the outward FDI has increased from US$ 110 million from 1990 to 2000 to US$ 17.68 billion in 2008, mostly through acquisitions (UNCTAD 2009). Typical illustrative examples of firms using this strategy (from the study sample) include Indian firms such as Bharat Forge Limited and Ranbaxy. Both pursued a series of acquisitions to become global competitors in less than a decade. In the case of Bharat Forge, it became the second largest forging company globally through a series of acquisitions which include CDP Aluminiumtechnik of Germany (providing entry into high-end aluminum components); Federal Forge of USA (providing a manufacturing presence in the USA and the largest automotive market); Carl Dan Peddinghaus GmbH & Co of Germany (giving it an extensive presence in Germany's automotive market); and Imatra Kilsta, AB, of Sweden along with its wholly-owned subsidiary Scottish Stampings of Scotland (providing entry into front axle beams and crank shafts). In a similar vein, Ranbaxy Laboratories grew to become one of the top generic drug manufacturers in the world by acquiring Ohm laboratory in the U.S., Bayer's generic drug business in Germany, RPG Aventis SA in France, Era-frames generic products in Spain, Terapia SA in Romania, the generics business of GSK in Italy and Spain, and BeTabs pharmaceuticals in South Africa. We acknowledge that such serial acquisitions are very expensive, risky and beyond the reach of most emerging market firms (Elango and Pattnaik 2007), yet a pattern of using serial acquisitions to establish a foothold in foreign markets exists (Chandler 2007; Dawar and Frost 1999; Luo and Tung 2007; UNCTAD 2006). Therefore, while this approach is not an option for many emerging market firms, this study's focus is on firms whose resources and managerial aggressiveness permit a strategy which resorts to serial acquisitions in order to acquire the competency to be a global player.

Empirically, we focus on a sample of 175 acquisitions made by Indian firms who have acquired two or more firms during the period 2000–2006, to study the process of competency acquisition by these emerging market firms through a sequential acquisition

strategy. The conceptual foundation of this paper is built on two notions: the springboard perspective, which emphasizes the notion of serial acquisitions, and the Uppsala Model, which describes internationalization through a process of experiential learning and knowledge development. Using the notion of knowledge development and sequential process from the Uppsala Model as a framework, we show how these firms acquire targets in a sequential manner to minimize risk as well as optimize their ability to learn from the acquisitions. While there have been a number of studies done on the process models of internationalization, we did not find studies which incorporate sequential acquisitions in the context of knowledge development for internationalization. Importantly, as this paper focuses on the development of capabilities [i.e., "dynamic capabilities" (Teece et al. 1997)] by firms internationalizing operations, it will be of significant interest to researchers and managers alike. Additionally, while extant research on international business has largely focused on MNCs from developed markets, this study will add to the nascent stream of literature on emerging firms (i.e., EMNCs) and provide for a greater understanding of such firms' internationalization strategies.

Conceptual Background—Role of Acquisitions in the Internationalization Process of Emerging Market Firms

> You know the market and your customer—you tell us the strategy.
> Tata Group manager in response to a senior manager of the acquired UK-based firm when asked what is it they (i.e., Tata Group) were looking for (Wall Street Journal 2006, B5).

The process of a firm developing capabilities for international operations has been addressed in the Uppsala Model (Johanson and Vahlne 1977). In this model, also referred to as the internationalization process model, a firm gradually increases its international involvement through development of knowledge of foreign markets. Internationalization is presented as an incremental process which takes place through interaction between knowledge and market commitment (Johanson and Vahlne 1977, 1990, 2006). Johanson and Vahlne propose that firms progressively gain experience by entering markets which are of smaller psychic distance before entering markets with greater psychic distance. The underlying assumption is that firms, by taking a sequential approach, are able to reduce uncertainty and make a better evaluation of future potential expansions (Barkema et al. 1996; Barkema and Drogendijk 2007).

The Uppsala Model stresses the need for knowledge about foreign markets to successfully internationalize operations (Johanson and Vahlne 1977). In this model, knowledge which is tacit in nature can be acquired by operating in the foreign environment and becoming closely connected to the market (Forsgren 2002). Thus, firms learn by experience through refining, adapting and modifying current business activities. The range of routines held by the firm would allow it to develop capabilities closely related to its current activities (Dosi 1984). Such learning is an evolutionary process in which firms follow a particular path of knowledge development where new knowledge is connected to existing knowledge as "… is determined by the reciprocal interaction of the firm and its infrastructure of relationships…" (Eriksson et al. 2000, p. 309).

While the core premise of the Uppsala Model of learning is valid, applying the model to this study's context requires two adaptations. First, the development of knowledge in a phased sequential manner as proposed in the Uppsala Model is not an option for these emerging market firms, given their current competitive necessities. These markets, which remained largely closed for several decades to foreign firms as well as suffering from regulatory interference in operations of local firms, have opened up substantially to foreign competition and undergone extensive market reforms. Considering the current exigencies of domestic market competition, these firms need to quickly learn to compete better with international rivals. Additionally, while these firms were successful in their traditional environment, they suffer from the "imprint" (Stinchcombe 1965; Kimberly 1979; Kriauciunas and Kale 2006) of being a successful operator in closed environments. Part of this imprint was due to a history of developing products and services targeted at the local market where pent-up demand existed, rather than making globally competitive products. Therefore, these firms face barriers to moving away from traditional operation norms and adapting to new environments, for reasons of bounded rationality (Cyert and March 1963; Nelson and Winter 1982).

Second, the Uppsala Model argues for moving into markets which are proximate and have less psychic distance. This is reasonable, given the geographic locations and the social and cultural similarities of many advanced countries. However, while many emerging market firms have operations in countries with relatively low psychic distance, it is not evident if the learning acquired from other emerging market countries can be transferred to advanced nations or even used to effectively compete in local markets with international rivals. Moreover, emerging-market MNCs traditionally have operated as suppliers for price sensitive segments in developed countries. Studies on these firms highlight the fact that, while these firms have a foreign presence, their competitive strengths come from cost-based advantages (Elango and Pattnaik 2007) or production process capabilities (UNCTAD 2006). While the prior experience gained is an important aspect of internationalization knowledge for these firms, their current experiential knowledge is quite different from capabilities needed to support operations and, more importantly, succeed in advanced markets (Song 2002). Therefore, despite having internationalization knowledge about host country markets, they lack critical capabilities to operate locally in foreign markets.

In such instances, acquisitions provide a strategic option for the foreign firm planning to enter newer segments, as a local firm who already possesses such knowledge would be the target (Forsgren 2002). Acquisitions in international markets provide the firm with quick access to knowledge and resources which it does not possess, enabling it to quickly overcome entry barriers in the host market. Morosini et al. (1998) highlight the fact that through acquisitions, foreign firms will be able to tap the varied "routines and repertoires which are embedded in national culture" (p. 137). Acquisitions not only help increase a firm's knowledge base, but also decrease self-inertia, providing a greater chance of success (Vermeulen and Barkema 2001). Therefore, acquisitions can also be viewed as a process of learning (Barkema and Vermeulen 1998). Through these acquisitions, firms can obtain new resources, improve and reconfigure existing operations, and be able to respond to competition more effectively (Capron et al. 1998).

Luo and Tung (2007), in the conceptualization of their springboard perspective, articulate that emerging market multinationals have several motivations to use acquisitions, including the need to compensate for competitive and latecomer disadvantages as well as to counterattack rivals in the home market. Stated differently, acquisitions by these foreign firms can be seen as a deliberate strategic choice to compensate for the lack of learning and exposure in market segments in which they do not yet operate. While this argument runs counter to the risk minimization notion and sequential development of knowledge during the internationalization process advanced by the Uppsala Model, Forsgren (2002) points out that firms would still be strategically motivated to invest abroad to facilitate learning when "perceived risk of investing abroad is lower than the perceived risk of not investing abroad" (p. 271). In this particular instance, these emerging market firms face a greater risk for failing to make the investment and learning from international markets. Therefore, the process of firm level learning, wherein new knowledge is integrated into the internationalization process through acquisitions, can be viewed under the aegis of the Uppsala Model (Barkema and Vermeulen 1998; Luo and Tung 2007).

However, the notion of serial acquisitions (or the springboard perspective) can be viewed to be in conflict with several findings reported in the literature. Several works have argued that international acquisitions are not likely to be carried out by firms from distant cultures (in this case, emerging markets and advanced nations) and in such instances, joint ventures and greenfield operations are more likely to take place (e.g., Kogut and Singh 1988). While we are cognizant of this notion, in this particular instance we believe it may not hold for several reasons. First, it presumes there are firms in host nations willing to partner with emerging market firms to help them gain market share on their home turf or that the emerging market firms have the capabilities to enter advanced markets on their own. Second, for reasons of affordability, most acquisitions made by emerging markets do not represent first-tier firms. Stated differently, targets of emerging market firms in advanced nations are usually smaller, declining or less-successful firms in the industry. Similar approaches to acquisition have been reported in the literature (Little 1981), where foreign firms acquired financially unhealthy U.S. firms, thereby allowing the acquisition to be made without large buyout premiums. Such acquisitions do not allow the emerging market firm to acquire significant market share or market-leading products immediately, but provide affordable local knowledge that can be used to improvise its existing capabilities (Elango 2005). An unplanned but favorable outcome of such acquisitions is that it results in fewer "indigestibility" issues (Reuer and Koza 2000). Therefore, we argue that firms acquire targets serially but of increasing value in a sequential manner. In the next section, we develop hypotheses wherein a firm makes deliberate choices in its acquisition targets in order to minimize the risk of acquisitions as well as to optimize its ability to learn from the acquisitions.

Hypothesis Development

Assimilative Capability

Extant literature has highlighted the fact that a firm making acquisitions can use knowledge from the acquired firm only if it has the requisite absorptive capacity (Cohen and

Levinthal 1990). Cohen and Levinthal elaborate this notion by explaining that only a firm with absorptive capacity can recognize, assimilate and successfully apply the extent of new information gained. While this literature has presented the difficulties in differentiating the various elements of absorptive capacity due to their inter-linkages (Bradshaw et al. 1983; Simon 1985), in this study, we focus on the assimilative capability of the firm. Lane et al. (2001, p. 1156) split absorptive capacity into two parts: ability to understand and assimilate knowledge and ability to apply the knowledge. The first part has been referred to as potential absorptive capacity and the latter as realized absorptive capacity (Zahra and George 2002). Our rationale here is that, while the exploitation of the knowledge is a critical outcome for the firm (Zahra and George 2002), a firm should have the capacity to assimilate the knowledge in an acquisition before any exploitation takes place. To achieve assimilation of new knowledge, acquiring firms need to have prior knowledge (Cohen and Levinthal 1990; Szulanski 1996; Lane and Lubatkin 1998; Gupta and Govindarajan 2000). The springboard perspective acknowledges the presence of knowledge within these firms, as they do operate in their home markets quite successfully. However, as noted earlier these capabilities may not be up to the standard to compete successfully in highly competitive markets with global players (Ramamurti and Singh 2009). Therefore, in line with the rationalizations presented earlier we posit that firms with prior knowledge will seek to acquire new knowledge through acquisitions according to their capability to assimilate (i.e., learn) the knowledge base of the acquiring firm.

Hypothesis 1: A firm's assimilative capability will be positively related to the value of the acquisition.

Acquisition Experience

Extant research has shown acquisitions in international markets to be prone to significant risks of failure. Common examples include situations where acquiring firms overestimate the benefits of acquired assets and overpay while at the same time underestimating the difficulties in managing differences in dominant logic, organizational and national culture, resulting in the acquisition not generating the desired benefits (Balakrishnan and Koza 1993; Hennart and Reddy 1997; Prahalad and Bettis 1986). One of the ways a firm can potentially reduce the risk of an acquisition is by gaining experience on how to effectively manage such acquisitions. Learning from previous acquisitions is one way for a firm to minimize risk by using prior experiences to draw inferences and apply them to future experiences (Levitt and March 1988). Acquisitions experience helps a firm develop routines in screening, selecting, executing, and integrating acquisitions, as well as developing competencies in handling administrative barriers (Vermeulen and Barkema 2001). Such incremental learning helps firms even though each acquisition is likely to be different from another (Barkema et al. 1997). The ability for a firm to absorb knowledge would be higher when acquisitions take place in the same industry, as it would have prior knowledge of products, markets and technology required for successful assimilation of learning (Barkema and Schijven 2008, p. 608). As firms complete acquisitions within their own industry, they are likely to gain greater confidence in their ability to execute such tasks and repeat them with greater momentum (Miller and Friesen 1982). Therefore, firms will

be willing to take greater risk in acquisitions (e.g., seeking larger targets) as they gain experience (Collins et al. 2008). This rationale is in line with the Uppsala Model which also proposes that firms would reduce uncertainty through accumulation of learning.

Hypothesis 2: A firm's acquisition experience will be positively related to the value of the acquisition.

Group Level Country Experience

In studies of entry mode strategies of firms, both Chang (1995) and Guillen (2002) find that, in the case of Japanese and Korean firms, an entry by a business group member in another country results in other members of the same business group following suit. One reason is that since these firms operate under a common umbrella, they tend to be benefited by the contacts and credibility of other business group members who have experience in dealing with institutional players such as banks or regulators in the home (and potentially in the host) country. Additionally, when member firms conduct acquisitions in specific international markets, learning from this process is likely to be transferred to other members in the business group. For example, member firms would learn from others by being cautioned about pitfalls in the foreign acquisitions process and also be told of the routines that work in such transactions. Moreover, groups that have made acquisitions in a particular country have local presence in the host country and would be motivated to use the local acquisition as a launch pad for future expansion by other member firms (Guillen 2003). Such business groups are a feature of the Indian business landscape (Khanna and Palepu 1997), consisting of affiliations of legally independent firms united through economic and social ties, and they exchange capital, products, labor and information internally among the group members (Khanna and Rivkin 2001). These business groups provide member firms with access to information, knowledge, resources, markets, and technologies and can be visualized as a "strategic network" (Gulati et al. 2000) providing knowledge facilitating internationalization (Welch and Welch 1996; Welch et al. 1998). Therefore, due to this increased knowledge and resultant comfort level, we believe that when a business group has acquisition experience in the host country, member firms making acquisitions in the particular country would seek high value acquisition targets.

According to Leff (1978), one of the roles of the business group corporate office is to ensure that investments and operations serve as an alternative to portfolio diversification. Given this role, we propose that firms will make higher value acquisitions targets in countries where the group has prior knowledge, but we also recognize business groups could be reluctant to allow their member firms to make many large investments in one single market. Thus once a group has made a several acquisitions in a country, the influence of group level country experience would be negative. We anticipate this behavior pattern, as it would be a risky proposition for a business group to commit resources to one single market, because of the loss of benefits of international diversification and risk minimization in such situations. Therefore, we expect a non-monotonic relationship, wherein (consistent with the learning rationale proposed in this paper) group level country experience will play a positive role in influencing acquisition of high value targets. However, this

influence will tend to taper off as business groups increase their exposure to a particular market.

Hypothesis 3: Group level country experience will be characterized by a positive relationship with the value of the acquisition initially, but the extent of this influence will taper off as the level of group level country experience increases.

Research Methodology

Sample Selection

The starting point for this study's sample was Thomson Financial SDC Platinum Mergers & Acquisitions database. This database has been used widely in many academic studies and known to be one of the comprehensive sources of such data for acquisitions. This study focuses on acquisitions that took place between the years 2000 to 2006. We choose the year 2000 for the starting year, as the Indian Government regulatory body, the Reserve Bank of India (RBI), relaxed regulations extensively in 1999, giving greater freedom to Indian firms seeking to invest in foreign markets (Luo and Tung 2007). Indian firms are allowed to invest up to a limit of 200% of their net worth through the automatic approval route of RBI. Additionally, firms were allowed to use 100% of their ADRs and GDRs for their overseas investments and raise external commercial borrowings (ECB) for undertaking overseas direct investment as well as mergers and acquisitions of overseas companies. The FDI stock from India increased from US$ 124 million in 1990 to US$ 12.9 billion in 2006 (UNCTAD 2007). Our initial search yielded a sample of 682 transactions.

Due to the nature and rationale of the hypotheses articulated in this study, we eliminated transactions that did not fit the following five criteria: the transaction is complete (i.e., pending, withdrawn, intended and partly completed transactions which are part of the database were deleted); the target must be a firm (i.e., real estate investments were deleted); the acquisition was a new transaction (i.e., increase of ownership in an existing venture were deleted); and finally, the acquiring firm made two or more acquisitions. This left us with a remaining sample of 197 transactions. Since a particular acquisition deal value is this study's dependent variable, we double checked the dollar value of the transaction using the MergerStat database, company web sites and other media outlets.

The remaining transactions were matched with the corresponding firm, business group and industry level independent variables for each of the years that the transaction took place. Information on the independent variables was collected from the PROWESS database compiled by the Center for Monitoring Indian Economy (CMIE). This database has been used by previous studies on publicly listed Indian firms (e.g., Khanna and Palepu 2001; Khanna and Rivkin 2001; Elango and Pattnaik 2007), and the relative accuracy of this source is viewed positively. During the process of matching the acquisition transactions with the firms listed in the PROWESS database, we eliminated transactions where we could not find information on the acquiring firm. This happened for three reasons. First, in some instances, Indian firms carry out overseas acquisitions under their parent

holding company name (e.g., Tata Industries Limited) or under name of the business group (e.g., Birla Group). Second, in some cases firms made acquisitions through an overseas firm which is a privately registered entity (e.g., "investor groups" or under "special purpose vehicles or SPVs", which is permitted under RBI guidelines without mentioning the particular acquirer). In these situations, it was not possible to link the acquisition to a particular firm. Third, some transactions were made by private firms (or private individuals) for whom no information was available from the PROWESS database. Elimination of these transactions as well as others with missing values resulted in a final sample of 175 transactions. To ensure reliability of the data collected from the PROWESS database, we randomly cross-checked about 20% of the data with other public sources of information such as company annual reports or information reported at corporate web sites.

Measures

The dependent variable for Hypotheses 1–5, *acquisition value*, is measured as the ratio of acquisition value of the target divided by acquirer's total assets. This size adjusted measure of acquisition value captures the extent of resource commitment by the acquiring firm and is consistent with previous research practice (Hayward 2002; Haleblian et al. 2006). A large acquisition represents a critical strategic choice, as such decisions cannot be reversed easily and have significant implications for a firm's future survival and success. Such irreversible commitments have been deemed to be the core of strategy, as they set a firm to a particular course of action (Ghemawat 1991). We operationalize assimilative capacity based on the following rationalization from extant research. First, a firm is a collection of knowledge and firms seek to build their existing knowledge base (Luo 2002). Second, a firm's ability to absorb new knowledge "…is largely a function of the firm's level of prior related knowledge…" (Cohen and Levinthal 1989, p. 128). Cohen and Levinthal (1990, pp. 128–129) go on to add, "…prior knowledge includes basic skills or even a shared language…" Later, citing others, they add, "…firms that conduct their own R&D are better able to use externally available information…" as "…capacity may be created as a byproduct of a firm's…" investments. In the context of this study, a firm's ability to understand international market needs require it to have prior knowledge of technology and customers, as well as sensitivity to international market differences. This line of reasoning is also consistent with underlying logic of internationalization process models (Johanson and Vahlne 1977, 1990; Calof and Beamish 1995; Eriksson et al. 2000) wherein existing (i.e., experiential) knowledge is a key ingredient of the process of internationalization. Therefore in this study, we operationalize assimilative capacity as investments in R&D and marketing and experience in international operations as the need to have prior knowledge in order to absorb new knowledge in foreign domains. Previous studies have used investments in R&D (Tseng et al. 2007); marketing (Tseng et al. 2007) and international operations (Contractor et al. 2005) as a proxy to capture such knowledge. We checked to see if these three dimensions could be added together to capture assimilative capacity as a single variable. However, the empirical properties (i.e., inter-item correlations) did not allow for this, and therefore we decided to treat the three dimensions as separate variables.

Firm acquisition experience is operationalized as the number of acquisitions carried out by the focal firm within its industry during the study period (Nadolska and Barkema 2007; Haleblian et al. 2006). We expanded Guillen's (2003) operationalization of *Group level country (acquisition) experience* and measured this variable as the number of acquisitions carried out by the focal firm's parental group firms in a particular country. In the instance where a firm is not a member of a business group, the score of that particular firm would be zero. The study also used five control variables (apart from the year dummies) to control for other dimensions of the transaction. The importance of business group membership in the context of emerging markets and its impact on a firm's choices and profitability have been well established in the literature (Khanna and Palepu 1997; Khanna and Rivkin 2001). Thus, to control for group membership we introduced a *group dummy* variable wherein firms belonging to a group were coded 1, and 0 otherwise. We controlled for firm *market power* to control for size-related motivations for a firms to make acquisitions. This variable is operationalized as firm assets divided by average assets of firms within the industry similar to Luo (1997). Luo and Tung (2007) articulate in their paper that international expansion strategies of private enterprise would differ from state-owned firms. Therefore, to control for such differences, we introduced a dummy for *state ownership* where we coded state-owned firms 1, and 0 otherwise. The extent of ownership is a critical factor during entry into foreign markets (Delios and Beamish 1999). Firms making acquisitions in foreign markets with less than *full ownership* will share control, risk and rewards with other partners in the venture. Therefore to control for differences in ownership, we categorized acquisitions resulting in 100% ownership as 1 and 0 otherwise. *Cultural distance* is included to control for the fact that acquiring firms would be more confident in making high value acquisitions in countries that are culturally closer to India compared to countries more distant (Bhagat et al. 2002; Barkema and Vermeulen 1998; Kogut and Singh 1988). We use the operationalization of Morosini et al. (1998) for *Cultural Distance*. The sample of firms used in this study came from a varied number of industries. We dummy coded the firms by using SIC codes which classified them into eleven broad industry categorizations (e.g., raw materials, food, textiles, primary manufacturing, secondary manufacturing, chemicals, textiles, chemicals, petroleum, business services, and services). All the independent and control variables (excluding cultural distance and dummy variables) have a 1 year lag with the dependent variable. Since the sample period was spread over 7 years, we introduced a dummy variable for years in each of the models in the testing of the hypotheses. Descriptive statistics of the variables used in this study along with correlation values are presented in Table 1.

Study Findings

Regression models were used in the testing of the three hypotheses, and the findings are reported in Table 2. To ensure that the assumptions of multivariate regression are not violated, we conducted two tests. Our first test was related to multicollinearity, since we had five control and three independent variables in our model. Our review of correlation tables indicated a minimal risk of multicollinearity invalidating the results for the firm variables in the model. Our second test was to check if there was heteroscedasticity in the data. One approach to check this is to plot the residuals versus the fitted values. Our

Table 1: Means, SDs and correlations (N = 175)

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
Group dummy	0.7257	0.4474	1										
Market power	0.2030	0.8687	0.077	1									
State ownership	0.0400	0.1965	−0.201***	−0.027	1								
Full ownership	0.4686	0.5004	0.141	−0.077	−0.192**	1							
Cultural distance	52.8783	11.1475	0.056	−0.139*	−0.177**	0.218***	1						
Research intensity	0.1928	2.4087	0.047	−0.018**	−0.016	−0.069	0.047	1					
Marketing intensity	0.0648	0.1933	0.075	0.166	0.017	0.069	−0.065	−0.018	1				
Internationalization	0.4489	0.4189	−0.227***	−0.02	0.064	0.068	0.059	0.057	−0.064	1			
Prior acquisition in same industry	0.4629	1.0654	0.003	−0.027	0.295***	−0.032	−0.167**	−0.03	0.063	0.242***	1		
Group acquisition by country	1.2286	1.3366	0.567***	−0.013	−0.123	0.114	0.152**	−0.014	0.034	0.051	0.208***	1	
Relative acquisition size	0.1358	0.1860	−0.249***	−0.086	0.011	0.000	0.105	0.008	0.129*	0.193***	0.07	−0.154**	1

***= $p < 0.01$; **= $p < 0.05$; *= $p < 0.1$

Table 2: Regression results between firm, group and industry characteristics with acquisition value (N=175)

	Control model	Model 1	Model 2	Model 3	Model 4
Independent variables					
Group dummy	−0.2125***	−0.2105***	−0.2075***	−0.2122***	−0.3125**
Market power	−0.1552**	−0.1578**	−0.1748**	−0.2135**	−0.1811**
State ownership	−0.0047	0.0126	0.0322	0.0655	0.0562
Full ownership	0.2505***	0.2224***	0.2257***	0.1620**	0.1550**
Cultural distance	0.1165*	0.1364**	0.1279*	0.1358**	0.1448***
Research intensity		−0.0161	−0.0166	−0.0166	−0.0179
Marketing intensity		0.1537***	0.1581**	0.1619**	0.1624**
Internationalization		0.0803*	0.0980*	0.1158**	0.1417**
Prior acquisition in same industry			−0.0836	−0.3079***	−0.1878**
Interaction term [prior acquisition in same industry * full ownership]				0.2594***	0.1579**
Group acquisition by country					0.2943**
Group acquisition by country (squared)					−0.1728*
R-Square	0.256	0.326	0.325	0.364	0.403
F value	5.185***	5.837***	6.032***	6.026***	5.870***
Incremental R-Square		0.07	N.A.	0.038	0.039
Incremental F value		2.309***	N.A.	2.267***	2.643***

***=$p<0.01$; **=$p<0.05$; *=$p<0.1$; All models were run with year and industry dummies. All beta values reflect standardized beta values

plot indicated the possibility of heteroscedasticity and thus we conducted White's test to verify if this was the case. Test results indicated heteroscedasticity to be a problem with the data. To rectify this problem, based on Hair et al. (1998), the transformation method we chose was to use the logarithm of the dependent variable. Using the transformed data, our plots indicated that the problem of heteroscedasticity was addressed and also confirmed using White's test. Therefore our regression models are run with the logarithm values of the acquisition value as the dependent variable. Additionally, we also checked the variance inflation factor (VIF) in each of the regression models.

Our study's control models included five variables. Of these, four were statistically significant, while state ownership was not statistically significant in any of the models tested. Group membership (group dummy) and market power was negatively related to

value of acquisition (beta = −0.2125 and −0.1552, with P values of 0.01 and 0.05 respectively). On the other hand, full ownership and cultural distance were positively related to the value of acquisition (beta = 0.2505 and 0.1165, with P values of 0.01 and 0.1 respectively). Models 1–4 test for each of the hypotheses proposed in this study. In order to test Hypothesis 1, we ran Model 1 with three new variables (research, marketing intensity, and internationalization) added to the control model to capture the impact of assimilative capacity on acquisition value. Findings indicate that marketing intensity and internationalization have a statistically positive relationship with internationalization (beta = 0.1537 and 0.0803, with P values of 0.01 and 0.1 respectively. However, research intensity had a statistically insignificant negative relationship with acquisition value, thereby indicating partial support for Hypothesis 1.

Hypothesis 2 suggested a firm's acquisitions experience would positively impact the value of the acquisition target, which is tested in Model 2. To our surprise, this hypothesis was not supported and the marginally negative loading (beta = −0.0836, non-significant), though statistically insignificant in many ways, challenged the premise of learning from experience articulated in this paper. This forced us to rethink the assertions made earlier in the conceptual development section. We were then led to ask the question, "*Under what circumstances may experience not be critical while making a large acquisition?*" One of the thoughts which came to mind was the fact that if an acquisition is a partial one, the need for experience may be less critical as opposed to a full acquisition. The underlying rationale was that in partial acquisitions, ownership results in joint control and therefore management resources and capabilities need not necessarily come solely from the acquiring firm. Therefore we created an interaction term (Prior Acquisition in Same Industry * Full Ownership) and added the term to Model 2. This is presented as Model 3. Model 3 proved our suspicion right, wherein we found that acquisition experience was negatively related to acquisition value (beta = −0.3079, $P < 0.01$), while in the case of full ownership this relationship was positive (beta = 0.1158, $P < 0.01$). While Hypotheses 1 and 2 focused on firm variables, Hypothesis 3 focuses on the business group and is tested in Model 4. Hypothesis 3 proposed a curvilinear relationship wherein we added two terms, namely, a linear and a squared term for group level country experience. Study findings support Hypothesis 3, with a positive loading (beta = 0.2943, $P < 0.05$) of the linear term of group experience and negative loading (beta = −0.1728, $P < 0.1$) for the square term. The following section of the paper discusses this study's research and managerial implications, concluding with its limitations and suggestions for future research.

Discussion of Results

This study offers several implications for research and practice. At a theoretical level, its findings can be linked to several streams of literature. First, to the best of our knowledge, this study is one of the first to offer empirical validation of the recently advanced springboard perspective on the internationalization of emerging market enterprises (Luo and Tung 2007). While this approach to acquiring competencies is "peculiar" (at least compared to the conventional assumptions in the literature), as acknowledged by its pro-

ponents, it does seem to be a viable strategy considering the competitive pressure faced by these firms in the new environment. Second, this paper called for integration of acquisitions in the Uppsala Model of internationalization. Findings support this notion and clearly support the idea that firms can seek knowledge in international markets through acquisitions in an experiential manner. This articulation also has concurrence under the aegis of the knowledge based view, wherein firms are viewed as a bundle of knowledge (Gupta and Govindarajan 2000). In this view, knowledge and learning are seen to be strategic resources of firms (e.g., Kogut and Zander 1992; Grant 1996), who thus seek to learn and develop capabilities faster than their rivals in order to achieve competitive advantage (Kogut and Zander 1993; Lane and Lubatkin 1998; Martin and Salomon 2003). Taken as a whole, the findings of this study show how the traditional boundaries drawn in academia between the fields of international business and strategy are indeed artificial (Barkema and Vermeulen 1998) and "not realistic in today's global economy" (Peng 2006, p. iii). For instance, at the conceptual level, it is evident the Indian firms studied are following the notion of "logical incrementalism" (Quinn 1980), which is a well-known paradigm in strategy literature. As articulated by Quinn, firms studied face a radical change in competitive environment. Given their resource constraints, they are learning to adapt by placing selective "bets" to increase their chances of success while reducing their chances of failure.

Study results offer support for the importance of the capacity of firms to absorb new knowledge, a topic of significant interest in the learning literature (Cohen and Levinthal 1990; Zahra and George 2002). While this study measured assimilative capacity through three proxies, two of them (market intensity and internationalization) were consistently significant across the models tested. Research intensity was not significant in any models tested. This may not be entirely surprising given the fact that prior studies on international operations of Indian firms have reported insignificant results with regard to this variable (Elango and Pattnaik 2007). Findings offer clear support for the importance of experience in handling acquisitions, when the acquisition results in 100% ownership. While this finding is not entirely in line with Hypothesis 2, it does offer useful insights. From a learning perspective, it seems as if firms find it necessary to gain industry specific acquisition experience before undertaking acquisitions which will result in full control as opposed to ventures wherein the control is to be shared with other partners. Study findings also highlight the complex role of business group experience and value of acquisition. This complex role is consistent with the role of the parent firm in deploying resources by member firms in markets where the extant experience can be leveraged, while at the same time diversifying its portfolio of investments across markets.

Of the five control variables used in this study, four of them were statistically significant. Full ownership and cultural distance were positively related to acquisition value. While one would anticipate firms seeking full ownership to be involved in high value acquisitions, the notion that cultural distance would be positively related to higher value acquisitions is contrary to conventional expectations. As argued in the conceptual section, two specific caveats apply with respect to this variable in this study. First, a majority of previous studies tested this variable in the context of entry mode decision (e.g., Hennart and Park 1993). In this study, the dependent variable is acquisition value, and motivations

driving such acquisitions are quite different, making the decision to invest more or less on an acquisition not to be driven by the cultural distance. Indian firms' acquisitions were largely in culturally distant markets (i.e., in developed countries) due to the fact that they offer better targets, given the underlying requirements of these firms. Culturally proximate countries (e.g., Pakistan, Sri Lanka, Bangladesh, Nepal, etc.) offer little in terms of advanced technology or market knowledge to Indian firms. Additionally, despite a common shared history, these countries have rather hostile and volatile bilateral political relationships with India. Firms with lesser market power or lacking group membership seem to be more active in making large acquisitions. This finding is in line with the assertions of this paper and the springboard perspective (Luo and Tung 2007) that such firms with lesser competitive advantages would attempt to leapfrog their rivals through such acquisitions, relative to well established players.

For practicing managers of emerging market firms, this study's findings offer another option to compete with well endowed international rivals. Findings support the notion that firm level competencies can be built sequentially through selective acquisitions (Prahalad and Hamel 1990; Chang 1995). Compared to the high value acquisitions which receive attention in the popular press, this approach calls for firms to pursue a strategy of making a series of low value acquisitions and proceeding in an incremental manner (Elango 2005). By choosing low value targets, these firms will find such acquisitions affordable and thus acquire specific (i.e., complementary) competencies they may lack. Most importantly, by seeking such low value targets, these emerging market firms reduce the risk of particular acquisitions going wrong initially. Needless to say, this approach has its risks. While this study was focused on emerging market firms, the findings could be also applied in the case of developed country firms. For instance, Hershey's of U.S. followed an international expansion strategy of acquiring smaller targets compared to its industry rivals (e.g., Kraft's recent acquisition of Cadbury, PLC). Insiders of the firm referred to these overseas acquisitions as representing a "patchwork quilt". However, over time, this approach enabled Hershey to form a line-up of brands and operational units internationally, which in its view was a "string of pearls" (Brat et al. 2010, p. B6). Luo and Tung (2007) point out that emerging market firms could have trouble managing such acquisitions due to differences in managing external and internal stakeholders and the ability to manage globally dispersed operations. Moreover, such tasks by firms require an ability by the MNE to execute the four C's [co-evolution, co-competence, co-opetition and co-orientation] effectively to be successful (Luo and Rui 2009). Since these acquisitions are usually the weaker firms in the market, such firms may not allow for any managerial slack in post-acquisitive errors common in such transactions. Therefore, as found by this study, these firms should seek to experiment with low value targets, moving to higher value targets only as they gain competencies to manage acquisitions.

Before concluding this section, we wish to highlight three limitations which apply to this study. First, this study's sample is restricted to Indian firms and is therefore limited by the idiosyncratic features of the Indian market. The Indian market is a fairly large emerging market but characterized by an institutional legacy of colonialism, state enterprises, a mix of socialistic ideology infused in capitalism, and an indigenous entrepreneurial

culture. In particular, the diversity of firms in India and the inherent market opportunities offered by its large population may limit the applicability of this study's findings to firms in many smaller emerging markets. Second, Indian firms are still in their nascent stages of learning to operate in international markets (which makes it interesting to study their adaptation) and it is not evident this pattern of behavior will be reflected in coming decades. For instance, at best it can be said that both Indian firms and the Indian economy are in a transient stage adapting to globalization. It remains to be seen if the trends reported in this paper will hold after these firms have adapted to the needs of globalization. Third, due to issues of multicollinearity this study focuses on industry level learning at the firm level and country level learning at the group level. Future research of the topic through different research design is needed to capture the learning which can take place in sequential acquisitions.

Concluding Comments

This study sought to show how emerging market firms minimize risk and learn to manage acquisitions through experience to develop competencies to compete in newly opened domestic markets. The findings of this study open several avenues for future research in the nascent area of emerging market firm internationalization. A natural extension of this research would be to investigate the cross-border knowledge transfer process (Bhagat et al. 2002) used by firms to internalize the routines learned from acquisitions. Another interesting avenue would to be to explore how various firm characteristics influence the selection of such acquisition targets. While in the current paper the focus was on learning and acquisition experience of emerging market firms, several firm dimensions offer opportunities for additional research. For example, the role of top management characteristics (family dominated versus professionally managed) or shareholding patterns are dimensions worth looking into in the context of Indian firms. Another interesting option could be to study the type of knowledge the firm is trying to acquire (Kogut and Zander 1993; Szulanski 1996). One question could be to verify if these firms seek different types of targets for explicit knowledge which is codifiable (or explainable), as opposed to implicit knowledge which is tacit and non-codifiable. Pushing this notion further, it would also be interesting to see how these firms transfer or internalize various types of knowledge from their acquisition. This is a topic worth investigating, given that implicit knowledge is embedded in a person or social group and involves factors which cannot be clearly articulated, such as personal beliefs, understanding, experience, and perspectives, making the transfer of knowledge difficult (Polanyi 1967; Nonaka and Takeuchi 1995; Szulanski 1996) for these emerging market firms. Finally, assuming that emerging market firms continue their current trend in international acquisitions over the coming years, it would be interesting to see if the patterns reported in this study vary over a period of time.

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