Understanding the Impact of Firm Resources on the Degree of Internationalization through Cross-Border Acquisitions: An Emerging Market Perspective

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Abstract—The realm of globalization strengthens the opportunities and pressures emerging market firms to engage in cross-border acquisitions. Based on the resource-based view (RBV), this research configures ‘ex ante’ determinants of emerging market firms and its impact on international expansion. Empirical findings indicate that organizational resources overall positively and significantly impact on internationalization after cross-border acquisition. This research sheds light on the resource antecedents of emerging market firms that influence internationalization by empirically analyzing Indian firms’ cross-border acquisition. This study advances our understanding of the antecedents of emerging market firms’ international expansion providing implications and avenues for future research.

Index Terms—resource-based view, emerging market firms, cross-border acquisition, degree of Internationalization

I. INTRODUCTION

The realm of increasing globalization of the firms intensifies the opportunities and pressures to engage in cross-border acquisitions [1], [2]. Theoretical understanding point out that cross-border acquisition is an effective strategy of international expansion characterized with alacrity in attaining strategic goals. Emerging market firms vividly instigate increasing propensity of embarking acquisition strategy as an imperative means to globalize their business boundaries. However, it still remains unclear germane to exploiting the scholastic identification of what the ‘ex ante’ determinants are that influence internationalization of emerging market firms undertaking cross-border acquisition strategy.

Emerging market firms demonstrate upheaval proclivity of cross-border acquisition to manage their internationalization strategy. Firms from the emerging market have been vigorously involved in attempting cross-border acquisitions strategy as one of the major modes of entry to other countries [3]. The resource availability of the Indian firms creates a reassessment of defining the international path through cross-border acquisition.

Despite the fact that emerging market firms undertake cross-border acquisition that is strategically important in terms of international expansion [4]-[7], previous literatures lack scrutinize the antecedents driving internationalization specifically in the context of emerging market firms. To the extent of effectively configuring organizational resources in global expansion through the means of cross-border acquisition strategy is a critical decision confronting emerging market firms. Drawing upon the resource-based view of the firms, we argue that resource availability plays a pivotal role in determining a firm’s international expansion [7] through cross-border acquisitions.

The RBV logic is vividly insightful and pertinent to corroborate with our research inquiries because the ability to internationalize and successfully manage in the foreign market is a function of capabilities of the firms [4], [8], [9]. In such circumstances, resources [10]-[12] are conducive to emerging market firms’ international expansion strategy. Emerging market firms emanate from differences in resource availability in deriving out internationalization through cross-border acquisition strategy. Along this line of reasoning, we contend that the applicability of emerging market firms’ degree of internationalization subsequent to cross-border acquisition stem from antecedents of resources availability.

The paper is structured as follows. First, we provide the literature review on organizational resources in the lens of RBV to develop hypotheses. Second, we discuss methodology. Third, empirical findings and discussions
are presented. In the last section, we draw implications and conclusion.

II. LITERATURE REVIEW

A. Organizational Resources and Internationalization

Understanding the antecedents of emerging markets and internationalization has been imperative up-to-date [13]. The origin of resource-based view dates to [14] who thoroughly developed the idea that firms are collections of diverse resources. RBV views a firm as a unique bundle of tangible and intangible resources that are regarded as competitive advantage specific to a firm that consequently direct its strategic crafting and imperatives on resources amassed [10]-[12], [15], [16]. RBV theorists have postulated that a firm's unique portfolio of tangible and intangible resources influences the rate and direction of a firm's expansion [17].

Delving into the phenomena of the emerging market firms, the agenda of emerging market firms' resource antecedents and internationalization research linkages is central topic. Organizational resources that emerging market firms hold can be critical sources of internationalization determinants that bestow through cross-border acquisition strategy. Reference [5], [18] have found that RBV is essential in understanding the benefits of international expansion. They theoretically underscore that firms with unique resources can leverage these resources to internationalize. It is imperative in this notion that firms’ cross-border expansion prerequisite organizational resources to maximize the internationalization. In this line of reasoning, resources refer as determining antecedents of the emerging market firms’ international expansion through cross-border acquisition strategy.

Adhering to this theoretical conceptualization, we articulate upon the RBV literatures to identify emerging market firm resources antecedents and internationalization linkages. Considering that emerging market international expansions heavily rely on cross-border acquisition strategy, we mingle the context of resources determinants and internationalization subsequent to cross-border acquisition event. We delve into technological, marketing, and organizational slack resources of emerging market firms particularly in the context of India to exploit pronounced effects of resources antecedents on the degree of internationalization subsequent to cross-border acquisitions. We further derive a set of hypotheses that link our research assessment.

B. Technological Resources

Technological resources refer to assets used to develop new product or formulate innovative manufacturing processes [19], [20]. Previous research has postulated that technological resources are perhaps one of the most important firm characteristics affecting the entry mode decisions to internationalize [21]-[25].

Technological resources are imperative specifically in the context of internationalization because innovativeness, as reflected in research and development terms, allow firms to achieve efficiency in its operations [26]. In fact, this becomes quite critical when emerging market firms expand into international arena to absorb higher technology.

It is imperative to acknowledge the fact that emerging market enterprises are rapidly building on R&D related activities to internationalize based on the emphasis of technological resources. The foreign direct investment literatures found that R&D intensity, widely held surrogate for technological resources substantially shape firms’ expansion behaviors across national borders [7], [27]-[29]. In the case of emerging market firms, technological resources are imperative in boosting international growth. Given the nature of their lack of technological resources, emerging market firms may find beneficial to combine their resources with specific factors or market conditions in host countries [30] through cross-border acquisition strategy.

Hypothesis1. There is a positive relationship between levels of technological resources and degree of internationalization growth through cross-border acquisition.

C. Marketing Resources

Given the contemporary prevalence of globalized market, firms that emphasize differentiation through heavy marketing activities present more propensity to succeed in multitudes of markets [31]. Marketing capabilities are basic resources that determine success in both domains of domestic and international market along with the technological capabilities [32]. Emerging market firms are vigorously emphasizing the role of marketing activities as critical determinants of successful international expansion.

In the case of emerging economies, however, obstacles prevail relevant to deployment of marketing resources that may limit the degree to which a firm can expand abroad. Although the world economy has become increasingly integrated, it is more than evident that cross-border or cross-cultural differences still remain. National variation including consumer preferences, marketing environments, and infrastructures, may hamper the adequate application of existing marketing skills in internationalization that will slow down a firm’s pace of foreign expansion [33]. Replicating firms' knowledge in different environmental settings is an intricate task owing to differences between home and host contexts [34],[35]. Specifically, emerging market firms’ lack of marketing resources comparatively to the developed countries is likely to confront tougher application of transferring marketing resources at the initiation stage.

However, as emerging market firms get use to the strategic imperatives and domains of international expansion, turnaround of the negative impact into
positive domain is pertinent. Through steering the resources into the development of marketing management practices [7], firms can render products distinctive and raise brand recognition. SAs the worldwide marketplace becomes increasingly homogenized, firms are better able to offer common marketing programs and practices on a global basis [36]. Accordingly, complementary marketing resources that emerging market firms eventually possess will drive firms to expand more into foreign markets. Such application of marketing resources in combinative setting has great potential to increase the likelihood of international expansion. We reason that there is an optimal level of U-shape marketing resources for firms’ international growth.

Hypothesis 2. There is a U-shape relationship between levels of marketing resources and degree of internationalization growth through cross-border acquisition.

D. Organizational Slack

Organizational slack is an important factor for international expansion. Organizational slack can be utilized that can be converted or redeployed for the purposes of organizational goals [37]-[39]. Internationalization entails strategically imperatives goals for emerging market firms to gain competitive advantage in the climate of recondite business environment. Given the fact that the propensity to jump out is rendered by the means of cross-border acquisition, organizational slack is an important ‘ex ante’ trigger for emerging market firms’ international expansion.

Based on RBV, organizational slack is to be considered the basis that facilitates implementation of firm strategy. Such resource serves to enable exploitation to foreign market opportunities that eventually achieve entries into the new market and going global [40]. The propensity of emerging market firms’ preference of cross-border acquisition to globalize their business is possible through the level of organizational slack before internationalization. Slack resources provide a cushion of actual and potential resources that firms can use to exploit opportunities [37], [39] for the implementation of internationalization strategy.

Hypothesis 3. There is a positive relationship between organizational slack and degree of internationalization growth through cross-border acquisition.

III. METHODOLOGY

A. Sample and Data

Cross-border acquisitions of Indian firms are collected through the Thomson SDC database, and the majority of the independent and dependent constructs germane to resources and internationalization are collected from the PROWESS database for the period of 2005-2007. The total of 215 acquisitions remained as testable sample. Considering the availability of data, our final sample is 209 cross-border transactions of 131 Indian firms targeting 38 different countries. We maintain with the view that the collected empirical data will contribute to adequate analysis of the research design.

B. Dependent Variable

We measured the internationalization as the degree of internationalization (DOI) depicting foreign sales to total sales (FSTS) which is the most common measure [18], [41], [42]. The usage of foreign sales to total sales as a measure of the international expansion is consistent with the majority of previous studies [18], [43], [44].

C. Independent Variable

We measure technological and marketing resources as the R&D expenses and advertising expenses divided by total sales [23], [25], [32], [45], [46]. In this study, we operationalize the organizational resources for internationalization as investments in R&D and marketing intensity as the prerequisites of prior knowledge to understand international market [46]. The variable of organizational slack is measured by the retained earnings, which mean readily availability in organization with discretion [7], [37], [47].

D. Control Variable

In this research, we control several variables that are likely to affect the relationship between resource antecedents and internationalization through cross-border acquisition linkages. We control firm size by total sales of the focal firms [48], [49], firm leverage as ratio of total debt to total equity [50]. Current ratio as current assets to current liabilities is controlled for firms’ available resources [51]-[55]. Firm age is measured by firms’ existence period from founded year to transaction year [4], [56]. To control the effect of cross-border acquisition, the value of transaction from SDC database is controlled in this research [57], [58].

E. Analysis

This study uses Ordinary Least Squared (OLS) multiple regression analysis was used to examine our hypotheses. OLS regression was used to statistically test the research design. Multiple regression assumptions are carefully examined before we ran the analysis to ensure that the assumptions are not violated. The OLS multiple regression analysis is an appropriate statistical technique to investigate the hypothesized associations and estimate coefficients of dependent and independent variables [59].

IV. FINDINGS AND DISCUSSION

A. Findings

Table I presents the results of the multiple regression analysis. The general models to test hypotheses are all supported as indicated by the significant F-values (p<0.001; 8.66). We conducted a test for multicollinearity among independent variables using the variance-inflation factor (VIF) that did not suggest any serious problem [60]. Our results of VIF are all lower
than 10 [61] depicting no problem. To test the autocorrelation in the residuals, we use the Durbin-Watson statistic (Model1:1.824; Model2:1.799)

Hypothesis 1 posits that the linkage between technological resource and internationalization is positive. Accordingly, R&D intensity is positively related to the internationalization of emerging market acquiring firm ($β=0.229$, $p<0.01$) supporting H1.

Hypothesis 2 predicts a U-shaped relationship between marketing resources and internationalization. The result depict advertisement intensity has U-shaped and significant relations supporting H2 (see Figure 1).

Hypothesis 3, which predicts positive relationship between organizational slack and internationalization linkage, the result indicate a positive and significant outcomes ($β=0.358$, $p<0.05$) supporting H3.

B. Discussion

This research reveals several remarkable insights that contribute to the existing literatures. First, the study excavates the impact of emerging market firm resources on global expansion subsequent to cross-border acquisition. This research complements existing research that emerging market firms concordantly confirm to including other emerging markets to vividly expose the ‘ex ante’ resource effects on internationalization. In addition, inquires relevant to furthering future research can focus on ruminating other organizational resources that influence on international expansion. Considerations to scrutinize emerging market specific resources along with segmenting resources into internal and external domain that could influence on international expansion of emerging market firms can have plentiful research prospects in the future.

V. CONCLUSION/IMPLICATIONS

A. Conclusion

This research analyzes the impact of organizational resources determinants on internationalization subsequent to cross-border acquisition. Our empirical findings indicate that overall Indian firms’ organizational resources positively impact on internationalization after cross-border acquisition. Based on RBV, we elucidate the significant effects of emerging market firms’ organizational resources articulating its effects on internationalization. Using the data collected from Thomson SDC and PROWESS database, OLS multiple regression analysis is conducted to demonstrate overall research design that furthers the resource based view of the emerging market firms. To the best of our knowledge, this is the first empirical paper to contribute scrutinizing the effect of resource antecedents on internationalization of emerging market firms subsequent to cross-border acquisition.

B. Implication

Future research implications can broaden the context including other emerging markets to vividly expose the ‘ex ante’ resource effects on internationalization. In addition, inquires relevant to furthering future research can focus on ruminating other organizational resources that influence on international expansion. Considerations to scrutinize emerging market specific resources along with segmenting resources into internal and external domain that could influence on international expansion of emerging market firms can have plentiful research prospects in the future.

REFERENCES


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