# Dreams Come True?: Navigating the Challenges of Utilizing Knowledge from Advanced Economies in Emerging Market Multinational Enterprises

**Jong Min Lee**[1]

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**Abstract** In recent decades, emerging market multinational enterprises (EMNEs) have aggressively pursued cross-border acquisitions, especially in advanced economies. The international business literature has argued that EMNEs can enhance their firm-specific advantages by acquiring knowledge assets from advanced economies. However, this study contends that the acquisition of knowledge assets and their effective utilization by EMNEs are fundamentally distinct. It suggests that EMNEs may encounter three significant challenges when applying the knowledge assets they have gained from cross-border acquisitions in advanced economies: information asymmetry; insufficient absorptive and recombinant capabilities; and organizational inertia. The investigation into these challenges aims to contribute insights to the ongoing theoretical discourse of the literature while offering practical implications for practitioners.

**Keywords** emerging market multinational enterprises (EMNEs) · knowledge assets · mergers and acquisitions (M&As) · organizational inertia · information asymmetry · absorptive capacity · recombinant capabilities · technological capabilities

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✉ Jong Min Lee
j.m.lee@yonsei.ac.kr

[1] School of Business, Yonsei University, Seoul, South Korea

## Introduction

Over the past few decades, emerging market multinational enterprises (EMNEs) have become major players in cross-border mergers and acquisitions (M&As), drawing substantial attention from international business (IB) researchers (Buckley et al., 2017; Enderwick & Buckley, 2021; Kumar et al., 2020; Luo & Tung, 2018). The global economic landscape has experienced a significant transformation, particularly in the areas of outward foreign direct investment (OFDI) and cross-border acquisitions. These sectors, traditionally dominated by advanced-economy multinational enterprises (AMNEs), are now seeing increasingly significant participation from emerging economies. In 2020, the distribution of global foreign direct investment (FDI) outflows between developed and developing economies evened out to a roughly equal ratio of about 50:50 (UNCTAD, 2021). This shift represents a substantial and rapid change in the dynamics of global investment, underscoring the escalating influence of developing economies in the global economy. As latecomers to the global economy, EMNEs differ from AMNEs in their lack of firm-specific advantages (FSAs) such as superior technology, worldwide brand recognition, and sophisticated management expertise (Madhok & Keyhani, 2012; Ravi Ramamurti & Singh, 2009; Rugman & Nguyen, 2014). To compensate for these shortcomings and swiftly close the gap with existing AMNEs, EMNEs strategically utilize international expansion as a 'springboard,' regularly engaging in aggressive cross-border mergers and acquisitions (M&As) in advanced countries to acquire strategic assets (Luo & Tung, 2007, 2018).

Simultaneously, IB scholars have deliberated on the factors propelling the international expansion of EMNEs. They question whether the existing theoretical frameworks, such as the eclectic paradigm or OLI (Ownership, Location, Internalization) theory, adequately explain this phenomenon or if there is a need for new explanatory models (Hennart, 2012; Ramamurti, 2012). In this debate, a prominent argument suggests that EMNEs have expanded internationally without relying extensively on typical FSAs, such as technologies and brands. Instead, their expansion is rooted in country-specific advantages (CSAs) such as low labor costs, natural resources, and governmental support (Mathews, 2006). Therefore, some scholars argue that there is no need for a new theory to elucidate the expansion of EMNEs since such a phenomenon aligns well with the existing OLI framework (Dunning, 1988; Narula, 2006; Rugman & Li, 2007). On the other hand, some scholars posit that while EMNEs may not possess conventional FSAs, they seek these resources by expanding abroad, acquiring strategic assets through 'springboard' investments in advanced economies (Kumar et al., 2020; Luo & Tung, 2007; Mathews, 2006). In this context, their argument suggests that current OLI theory falls short in fully explaining the recent expansion of EMNEs.

Amidst this trend of EMNE's OFDI, researchers have extensively focused on the notable surge in M&A activities undertaken by EMNEs. Particularly noteworthy has been their acquisitions of AMNEs, indirectly bolstering the argument of the latter perspective in the debate (Madhok & Keyhani, 2012; Nicholson & Salaber, 2013; Peng, 2012). Undoubtedly, cross-border M&A data indicate a clear trend of EMNEs venturing overseas to procure strategic assets housed within AMNEs. Prominent examples highlighting this trend are the acquisition of GE Appliances (USA) by Haier (China), Jaguar Land Rover (UK) by Tata (India), and Volvo (Sweden) by Geely Motor (China). These cases demonstrate the increasing involvement of EMNEs in the global acquisition arena, specifically their focus on acquiring established, industry-leading companies with strong brands and technological assets. The existing literature extensively discusses that EMNEs often prioritize acquisitions as their primary entry mode when seeking strategic resources, as opposed to other available options (Deng, 2009; Luo & Tung, 2007; Nicholson & Salaber, 2013; Rui & Yip, 2008; Wang & Boateng, 2007). This is because M&A stands out as the most effective and rapid method for EMNEs to obtain the strategic assets they lack (Gubbi et al., 2010). Such an approach can assist them in mitigating the liability of 'emergingness' (Madhok & Keyhani, 2012).

Despite the fact that their expansions are based on asset-seeking motives, EMNEs' acquisition of firms with valuable strategic assets does not guarantee the augmentation of their competitive advantage. In essence, the EMNEs' springboard investments or acquisitions of AMNEs with the aim of obtaining strategic assets from advanced economies to compensate for their FSA deficiencies warrant a separate discussion from their actual FSA augmentations. In reality, numerous EMNEs engaging in overseas acquisitions encounter serious challenges in realizing their expected outcomes (Aybar & Ficici, 2009; Sun et al., 2012; Yaprak et al., 2018). Underperformance in M&A compared to the acquirers' expectations is a global challenge and not necessarily exclusive to EMNEs. However, the performance of EMNEs in this realm is presumed to be more challenging than the global average, mainly due to their lack of experience and management capabilities (Liang et al., 2021; Peng, 2012). Specifically, EMNEs are prone to struggle with their limited capabilities to handle the knowledge assets they acquire from advanced economies. Unlike assets like brands and distribution networks, knowledge assets, such as cutting-edge technologies and managerial expertise, typically require more sophisticated capabilities and processes for their effective exploitation (J. F. Hennart, 2009).

Nevertheless, the literature appears to overlook a thorough discussion of these challenges. Specifically, numerous studies have emphasized that EMNEs pursue acquisitions in advanced economies primarily to access strategic assets. Particularly, they seek assets that provide certain FSAs that are absent in their current portfolio but are essential for competing effectively against AMNEs (Chen, 2008; Deng, 2007; Deng, 2009; Luo & Tung, 2007; Nicholson & Salaber, 2013; Rui & Yip, 2008). However, most of these arguments appear to be grounded in the implicit assumption that EMNEs can easily attain superior FSAs through their acquisitions. This assumption is often not accurate, as many EMNEs encounter numerous challenges and difficulties when leveraging the knowledge assets acquired through their acquisitions.

The ongoing challenges faced by EMNEs in utilizing knowledge assets acquired from firms in advanced economies remain a complex puzzle in the current literature. In an effort to address this enigma, which serves as the key research question, this study delves into the specific challenges EMNEs encounter in leveraging knowledge assets from their acquisitions in advanced economies. By doing so, the current study makes a two-fold contribution. First, by considering the characteristics of these assets and EMNEs themselves, it addresses the specific challenges that EMNEs may encounter during their acquisition and utilization of knowledge assets from advanced economies. Second, this study makes a clear distinction between the physical acquisition of knowledge assets from advanced economies and their effective utilization by EMNEs. In doing so, it questions the springboard investment perspective, thereby contributing meaningful insights to the ongoing theoretical debate in the current literature. The study highlights the complexities that EMNEs face not only in acquiring external assets but also in successfully integrating and utilizing them within their operations. The arguments presented in this paper also have significant implications for managers of EMNEs, particularly those overseeing the overseas acquisitions of advanced firms.

## Theoretical Debates on EMNEs' OFDI

The significant surge in OFDI from emerging economies, particularly from BRICS countries (i.e., Brazil, Russia, India, China, and South Africa) has sparked a theoretical debate about the sufficiency of the established OLI theory (Dunning, 1988) in comprehensively explaining this trend, prompting consideration of the need for a new theory (Narula & Lee, 2020). Scholars have frequently categorized this debate into three primary positions, commonly referred to as the Goldilocks debate (Cuervo-Cazurra, 2012; Ramamurti, 2012).

The first stance argues that the current IB theory can sufficiently explain this phenomenon, thus obviating the need for a new theory (Lessard & Lucea, 2009; Narula, 2006; Rugman, 2009; Rugman & Li, 2007). According to this perspective, EMNEs are expanding internationally without possessing substantial FSAs like cutting-edge technologies or well-established brands. Instead, they heavily rely on readily available CSAs such as low-cost labor, natural resources, and favorable governmental financial and policy support. Consequently, these advantages are deemed unsustainable over the long term, leading scholars with this stance to emphasize the necessity for EMNEs to develop robust FSAs to sustain their business activities and compete with traditional multinational enterprises (MNEs) from advanced economies. They argue that the OLI framework adeptly explains this phenomenon: EMNEs engage in OFDI primarily based on their location advantages, despite possessing limited ownership advantages.

On the contrary, proponents of the second position contend that current IB theory predominantly focuses on analyzing MNEs in advanced economies, thus inadequately explaining OFDI by EMNEs, which demonstrate behavior that is distinct from AMNEs (Guillén & García-Canal, 2009; Luo & Tung, 2007; Mathews, 2006). This stance advocates two primary models: the LLL (Linkage, Leverage, and Learning) framework (Mathews, 2006) and the 'springboard investment' model (Luo & Tung, 2007). The primary argument of these models asserts that EMNEs venture abroad to acquire the conventional types of FSAs they lack domestically. Through such outward investments, EMNEs aim to offset their competitive disadvantage, overcoming weaknesses such as latecomer disadvantage and the constraints of being considered 'emerging' entities (Luo & Tung, 2007; Madhok & Keyhani, 2012).

The third perspective in this debate posits that the global expansion of EMNEs contributes to advancing existing IB theories (Cuervo-Cazurra, 2012; Ramamurti, 2009; Ramamurti, 2012). Scholars aligned with this viewpoint argue that EMNEs differ significantly from traditional MNEs in advanced economies and, consequently, follow distinct paths of internationalization (Ramamurti, 2009). They contend that EMNEs possess FSAs, albeit different from those of established MNEs. For instance, EMNEs exhibit a profound understanding of emerging market customers and business environments, alongside their capability to produce Western-style products at lower costs, while meeting local market standards. This characteristic allows EMNEs to expand abroad utilizing their FSAs and thereby effectively compete in less developed markets (Cuervo-Cazurra & Genc, 2008; Ramamurti, 2009; Zeng & Williamson, 2007). Consequently, the third perspective suggests that analyzing EMNEs can enrich the current understanding of ownership advantages and processes of internationalization (Cuervo-Cazurra, 2012; Ramamurti, 2012).

## Why Do EMNEs Favor the Acquisition Option?

Beyond the theoretical discourse, real-world scenarios reveal a significant increase in OFDI from emerging economies, which constitutes a substantial portion of the global total OFDI in recent years (UNCTAD, 2021). As previously mentioned, numerous high-profile acquisitions by EMNEs have clearly demonstrated this trend, which is consistent with perspectives in IB literature indicating that EMNEs tend to favor acquisitions over alternative entry modes when expanding their global footprint, particularly in advanced economies (Deng, 2009; Gubbi et al., 2010; Kumar et al., 2020; Luo & Tung, 2018; Madhok & Keyhani, 2012; Peng, 2012). There are several reasons discussed in the literature why EMNEs prefer acquisitions to other options. First, acquisitions offer EMNEs the quickest route to international expansion of their product and consumer markets, along with swift access to crucial strategic assets, notably knowledge-based resources (Deng, 2009; Wang & Boateng, 2007). Certainly, with the global trend toward economic liberalization, EMNEs face mounting pressures to diversify geographically and compete with advanced MNEs in both their home and host markets. Given these circumstances, acquisitions emerge as a favorable choice for EMNEs to effectively respond to this pressure (Deng, 2009; Madhok & Keyhani, 2012). Second, acquiring firms in advanced economies offers EMNEs the chance to shed their 'less than world-class' image and swiftly adopt a 'world-class' status in a single move. This strategy helps them overcome the 'liabilities of emergingness' (Luo & Tung, 2007; Madhok & Keyhani, 2012; Peng, 2012). Third, some researchers suggest that EMNEs can achieve a unique kind of synergy by acquiring high-value, high-quality front-end capabilities and resources from developed markets and combining them with their back-end low-cost capabilities (Harrison et al., 2001). This drives EMNEs to seek high-quality complementary assets from advanced economies (Gubbi et al., 2010). It is worth noting that these arguments are closely aligned with the premise of springboard investment, which posits that EMNEs venture abroad to obtain strategic assets or traditional FSAs from advanced economies (Luo & Tung, 2007).

## The Challenges Encountered by EMNEs in Utilizing Knowledge Assets Acquired from Advanced Economies

Considering the ongoing theoretical debates alongside the aggressive OFDI by EMNEs, doubts may arise regarding the sustainability of EMNEs' M&A activities and their performance over the long run (Pereira et al., 2021; Ramamurti, 2012). Conversely, some argue that this surge supports the second position, advocating the idea of springboard investment. However, making predictions at this stage appears premature for several reasons. First, a significant portion of EMNEs' OFDI is directed toward securing natural resources in developing nations (Deng, 2009; UNCTAD, 2013) and crucially, the long-term performance of EMNEs' M&A endeavors remains undisclosed (Peng, 2012). Indeed, the limited available evidence hints at the potential for lackluster M&A performance among EMNEs. For instance, statistics reveal subpar completion rates in cross-border acquisition deals among Chinese and Indian MNEs from 2000 to 2008, standing at 47 percent and 67 percent respectively (Peng, 2012; Sun et al., 2012). The short-term effects of cross-border M&As by EMNEs often point to positive impacts on their performance. The announcement itself signals confidence in the global market and an intent to seek complementary assets while competing on a global scale (Gubbi et al., 2010; Tao et al., 2017). Stock investors may also perceive larger bids by EMNEs as a promising prospect, particularly when accompanied by higher prices compared to AMNEs (Aybar & Ficici, 2009). However, the long-term post-acquisition performance of many EMNEs frequently demonstrates financial underperformance and a failure to bolster their competitive edge.

It is important to note that acquiring strategic assets does not automatically ensure that the EMNEs will use them effectively, especially when it comes to assets housed within AMNEs, notably knowledge-based ones like cutting-edge technologies and high-quality management skills (Lee, 2022). Despite acquiring firms with such valuable assets, EMNEs may struggle to leverage them effectively. However, this aspect has received minimal attention in the current literature, particularly when it comes to the challenges that arise when EMNEs utilize the knowledge assets they attain from acquiring firms in advanced economies. This holds significant importance as these challenges can severely impede EMNEs from achieving their objectives related to knowledge assets, potentially compromising their performance and competitive advantages. Hence, it is imperative to delve into the obstacles EMNEs face in utilizing these assets acquired from AMNEs. The utilization of knowledge assets aligns with reverse knowledge transfer activities, requiring EMNEs to extract knowledge from their acquired affiliates. It also involves recombining acquired knowledge with EMNEs' own assets (Awate et al., 2015; Lee et al., 2021). Therefore, this study primarily identifies the challenges EMNEs face within these realms while also examining the difficulties that may arise prior to the acquisition of advanced firms.

## Information Asymmetry

Most applications of MNE internalization theory have highlighted the international interdependencies of knowledge or know-how (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1981). The theory posits that markets are not always efficient because of the bounded rationality and opportunisms embedded in transactors, which can lead to market failure. Particularly, in knowledge and know-how markets, both buyers and sellers often face a fundamental information asymmetry that hampers efficient market transactions for knowledge (Hennart, 1991; J.-F. Hennart, 2009). In knowledge markets, buyers have difficulties assessing the appropriate value of the knowledge possessed by sellers. Meanwhile, sellers cannot offer precise information about the knowledge, as doing so would essentially transfer the knowledge to buyers without compensation (Arrow, 1962; Hennart, 1991). This situation creates confusion for both parties in determining appropriate prices for knowledge, thereby inhibiting satisfactory knowledge transactions and leading to market failure in the knowledge domain. Therefore, a remedy in this scenario is to establish interdependencies between transactors, essentially utilizing a hierarchical structure by forming a firm or an MNE (Hennart, 1982). In sum, the primary challenge of knowledge markets lies in the tendency of buyers to underbid, which results from information asymmetry. Consequently, sellers often opt to establish their own hierarchy or joint ventures to address these market failures (Buckley & Casson, 1976; Hennart, 1991).

This classic IB theory can be applied to the current scenario of EMNEs acquiring knowledge assets from advanced economies, albeit from a different perspective. Here, EMNEs act as buyers with imperfect knowledge regarding the assets they are acquiring. Essentially, as buyers of knowledge or know-how, EMNEs typically lack precise knowledge about the specific characteristics and proper value of these assets before purchasing them (Arrow, 1962). However, lacking this critical information about the knowledge, EMNEs might persist in acquiring these assets from advanced economies due to the urgency or eagerness to rapidly catch up. Consequently, in such a scenario, EMNEs face two underlying threats: first, the risk of acquiring inappropriate targets, and second, the possibility of overpaying for knowledge (or AMNEs) acquisitions, potentially leading to a 'winner's curse' and endangering their competitive edge. In fact, scholars have illustrated that companies from emerging economies like China systematically tend to overbid when acquiring assets from developed economies compared to their counterparts from advanced economies (Hope et al., 2011). Although there are various explanations for this tendency to overbid, ranging from national pride (Hope et al., 2011) to managerial hubris (Peng, 2012), this study argues that information asymmetry stands out as the fundamental driver of this trend. Ultimately, when acquiring knowledge assets from advanced economies, EMNEs face an *ex-ante* challenge rooted in information asymmetry. This challenge revolves around acquiring the right targets at the right prices, potentially undermining their anticipated performance and competitive advantage.

## Lack of Absorptive Capacity and Recombinant Capabilities

The utilization of acquired knowledge assets presents a significant challenge for EMNEs, with absorptive capacity (Cohen & Levinthal, 1990) emerging as the primary hurdle. Acquiring firms with desired knowledge assets is one thing; however, effectively utilizing these assets—extracting and recombining them—is an entirely different challenge (Narula, 2012). In IB literature, absorptive capacity is frequently examined at the firm level, particularly in contexts involving technological learning and advancement (Narula, 2014b).

Absorptive capacity, as defined by Cohen and Levinthal (1990), denotes a firm's capacity to recognize, assimilate, and leverage external knowledge. This ability is intricately linked to a firm's pre-existing related knowledge. In the context of knowledge assets, firms face significant hurdles in absorbing external knowledge if they lack relevant prior expertise. For instance, in acquiring cutting-edge technologies from advanced firms, EMNEs require substantial prior R&D capabilities to effectively integrate and apply these assets (Kafouros & Buckley, 2008). Without such prior knowledge or R&D capabilities, EMNEs that pursue knowledge assets from advanced firms may encounter failure or achieve outcomes below their expectations.

However, it is noteworthy that, while this challenge of absorptive capacity is crucial, solely focusing on it might undermine its significance, as it is a topic frequently discussed in the M&A literature and is not solely an EMNE challenge. In fact, there is another aspect to consider here. Current technological advancements necessitate that firms possess significant technological ‘bandwidth’ for absorbing and leveraging external knowledge effectively. This means that utilizing modern technologies, especially cutting-edge ones, often calls for diverse technological competencies. In today’s business landscape, products, processes, and services require broader and deeper expertise across a multitude of unrelated fields (Narula, 2014a). Similarly, ‘recombinant capabilities,’ defined as the capacity to merge and bundle acquired assets with internal ones, now require a broader technological bandwidth (Lee et al., 2021). EMNEs seemingly have a good chance to create distinct advantages by merging high-value technologies gained from advanced economies with location-specific assets in their home countries, such as their low-cost production capabilities (Harrison et al., 2001; Madhok & Keyhani, 2012). However, in order for EMNEs to harness these advantages, they need to possess both absorptive capacity and recombinant capabilities, backed by an extensive technological bandwidth (Narula, 2012).

Hence, a pivotal query arises as to whether EMNEs possess the requisite prior related knowledge and sufficient technological capabilities (i.e., technological bandwidth) to effectively utilize, absorb, and recombine the knowledge assets they acquire from advanced economies. However, the existing literature lacks substantial evidence of these capabilities within EMNEs, despite their rapid increase in acquiring advanced firms from developed markets, which holds true in the real world as well.

Indeed, research on EMNEs’ cross-border acquisition performance remains relatively underdeveloped, with limited and conflicting findings regarding EMNEs’ acquisitions in advanced economies (Ai & Tan, 2020; Aybar & Ficici, 2009; Gubbi et al., 2010; Zhang et al., 2020). While numerous studies have examined successful acquisitions, only minimal attention has been directed toward the considerable number of abandoned acquisitions (Narula, 2012; Peng, 2012; Zhang et al., 2011).

In a real-world scenario, for instance, following their acquisition of Jaguar Land Rover (JLR), Tata Motors appears to have successfully integrated JLR, allowing it to operate independently and generate significant profits from the JLR brands. However, Tata seems to have struggled with its absorptive capacity and recombinant capabilities, as evidenced by the persistent quality issues and sluggish sales of their own brand’s automobiles (McLain, 2013). In the current automotive landscape, JLR encounters a significant challenge as it competes with Europe’s premier auto market leaders amid the transition toward electrification. However, Tata appears to lack both the financial resources and specialized expertise in electrification necessary to support JLR during this transition. As a result, JLR trails behind in this competitive arena, raising substantial concerns about its future prospects (Winton, 2023). This is a clear demonstration that an EMNE’s acquisition of an AMNE with advanced technology and a strong brand does not automatically result in the enhancement of its own technological capabilities, as initially intended, even a decade after the acquisition. This failure often stems from inadequate absorptive capacity and recombinant capabilities, possibly exacerbated by a lack of astute management capabilities.

It is also noteworthy that for certain cutting-edge technologies, only a few MNEs, even within advanced economies, may possess sufficient capabilities to leverage them. This leads some to argue that the challenge is not exclusively unique to EMNEs. However, the concentration of more knowledge-intensive, higher value-added activities in advanced markets, juxtaposed with less knowledge-intensive, lower value-added activities in emerging markets (Ernst & Kim, 2002; Pyndt & Pedersen, 2006) and coupled with the general technology development gap between EMNEs and AMNEs (Cuervo-Cazurra & Genc, 2008; Mathews, 2006), suggests that EMNEs typically have a narrower technological bandwidth compared to their advanced counterparts. In sum, a deficiency in absorptive capacity and recombinant capabilities, combined with limited technological bandwidth, pose a significant challenge for EMNEs in effectively leveraging knowledge-based assets acquired from advanced economies.

## Organizational and Structural Inertia

IB literature has extensively categorized FSAs (Cantwell & Narula, 2001; Dunning, 1988; Narula & Lee, 2020, 2024) into two main classes. The initial category involves asset-type FSAs, encompassing various functional resources and capabilities like physical assets, technologies, intellectual property, skills, and know-how. These resources might be integrated into the firm's physical equipment through property rights ownership or exist within organizational processes and routines. The second classification refers to transaction-type FSAs, which pertain to the organizational ability to efficiently manage and coordinate firm activities and ultimately derive economic benefits from asset-type FSAs (Lee et al., 2021). In addition to cutting-edge technologies and/or brands, which can be categorized as asset-type FSAs, advanced management expertise, or coordination and governance know-how regarded as transaction-type FSAs, are also knowledge assets that EMNEs eagerly seek from their acquisitions of AMNEs. These assets not only contribute to building competitive advantage and overcoming latecomer disadvantage (Luo & Tung, 2007), but, more importantly, are also essential for managing internal hierarchies and markets within MNEs (Narula, 2014a), particularly when they oversee geographically dispersed organizations during their international expansion.

However, it is difficult to utilize transaction-type FSAs obtained through acquisitions because they are normally uncodified, embedded in routines, embodied in organization members, and internalized within the firms through historical, social, and economic ties to external actors in their home countries (Meyer et al., 2011; Narula, 2012; Rugman & Verbeke, 2004). Again, these challenges of 'stickiness' or 'embeddedness' of knowledge assets (Szulanski, 1996) are not exclusive to EMNEs but are applicable to all firms. EMNEs, however, may encounter these challenges more acutely due to their limited global experiences and managerial expertise.

Furthermore, beyond the traditional challenge of 'stickiness,' EMNEs may also face formidable organizational inertia that is rooted in their unique developmental trajectory. Organizational inertia generally describes firms' tendency to adhere to institutionalized routines and standardized processes, which demonstrate their reliability and accountability and lend them legitimacy (Hannan & Freeman, 1984). Firms, by nature, tend to be path dependent, avoiding drastic changes while retaining their organizational structure, prior successful practices, and institutional relationships.

The literature frequently highlights that many prominent EMNEs are either state-owned enterprises (SOEs), which is particularly common among Chinese MNEs (Peng, 2012), or are affiliated with robust conglomerates often controlled by family-led business houses, as seen in India (Buckley et al., 2007; Khanna & Palepu, 2010). The growth trajectory of these EMNEs is intricately tied to their political and government connections. Operating under the umbrella of national economic development, these EMNEs have enjoyed several organizational and institutional privileges. These perks include access to low-cost financing, government-backed guarantees and subsidies, relaxed monitoring requirements, and a gamut of favorable policies (Buckley et al., 2007; Child & Rodrigues, 2005; Peng, 2012). Leveraging this extensive support from their governments or business conglomerates, EMNEs have undergone rapid growth in their domestic economies, facilitating their swift international expansion (Fortanier & Van Tulder, 2009; Kumar & Chadha, 2009). In this regard, many EMNEs operate within centralized control or governance structures linked to governments or business groups (Khanna & Palepu, 2010; Kock & Guillén, 2001; Peng, 2012), which can result in significant organizational inertia. The centralized control towers within such a structure often utilize internalization to capitalize on economies of scale and scope (Duysters et al., 2009). Consequently, EMNEs forge strong links with other units in the business group and various institutions.

Undeniably, these robust connections fuel the rapid growth and swift international expansion of EMNEs. However, these ties, while initially beneficial, can eventually turn into constraints, fostering structural inertia. Introducing and applying management expertise or coordination and governance know-how acquired from advanced firms may impact EMNEs' relationships with governments and the overarching governance structure of the business groups. This is because these transaction-type FSAs are intricately linked to the firms' governance (Narula, 2014a), potentially triggering organizational resistance. In essence, the developmental trajectory of EMNEs, marked by strong ties within business groups or institutions, is prone to generating organizational inertia. This inertia could pose a significant challenge for EMNEs in leveraging knowledge assets, especially those related to management expertise or coordination and governance know-how obtained through acquisitions of advanced firms.

## Discussion and Conclusion

Previous literature has extensively explored the challenges encountered by EMNEs in acquiring foreign assets, primarily concentrating on overarching management concerns like post-M&A integration. These studies often highlight that poor governance, a lack of global experience and managerial competencies, and a deficit in professional talent all represent unique barriers for EMNEs in this domain (Chen & Young, 2010; Luo & Tung, 2007; Peng, 2012; Slangen, 2006; Sun et al., 2012). Insufficient attention has been paid to the challenges EMNEs encounter while utilizing knowledge assets obtained through acquisitions. Despite numerous studies highlighting EMNEs' aggressive acquisitions in advanced economies to attain these assets, the specific challenges the firms confront in utilizing them have not been adequately addressed (Deng, 2009; Gubbi et al., 2010; Luo & Tung, 2007; Mudambi, 2008; Rui & Yip, 2008). The lack of attention to this issue in research is rather surprising yet profoundly significant. The key contribution of this work is to address this gap in the literature by exploring the difficulties EMNEs face while utilizing the knowledge-based assets they have acquired from companies in advanced economies. This study presents a three-fold argument.

First, when EMNEs seek to obtain knowledge assets from advanced economies through acquisitions, they often encounter information asymmetry, struggling to identify the right targets at the appropriate price point. Gauging the *a priori* value of knowledge is inherently challenging for buyers (Arrow, 1962). However, under the pressures of economic liberalization and the imperative to catch up (Madhok & Keyhani, 2012), EMNEs tend to procure knowledge assets from advanced economies without conducting comprehensive evaluations of their value. This inclination often results in EMNEs overpaying in bids (Hope et al., 2011) and hampers their ability to acquire the precise knowledge they intend to at a suitable cost.

Second, a critical challenge faced by EMNEs emerges from the inadequacy of their absorptive capacity and recombinant capabilities, especially when dealing with asset-type FSAs such as cutting-edge technologies. The importance of absorptive capacity has been extensively highlighted in literature exploring technology and knowledge transfer (Kafouros & Buckley, 2008; Szulanski, 1996), and some EMNEs are cognizant of this, having invested significantly in their own R&D efforts (Duysters et al., 2009). Nevertheless, effectively absorbing and integrating modern technologies necessitates a substantial level of 'technological bandwidth.' Recent cutting-edge technologies have often encompassed a multitude of technological competencies (Narula, 2014a). Consequently, in the current era, the absorptive capacity and recombinant capabilities required to leverage cutting-edge technologies sourced from advanced economies have increased significantly, posing a considerable challenge to many EMNEs who lack such capabilities.

Lastly, significant organizational inertia stemming from EMNE's developmental trajectory may impede them in their harnessing of transaction-type FSAs acquired from AMNEs, such as management expertise or coordination/governance know-how. Many EMNEs have experienced rapid growth backed by state and business group support, resulting in strong connections with other business units and governmental institutions (Buckley et al., 2007; Khanna & Palepu, 2010). Consequently, the utilization of these acquired transaction-type FSAs can become challenging for EMNEs since their application might encounter organizational resistance due to a close association with the firm's governance.

This paper makes a significant contribution to the theoretical discourse on the OFDI of EMNEs. It presents a critical perspective, especially in relation to the springboard investment perspective (Luo & Tung, 2007, 2018) as well as knowledge-based assets. Numerous studies have highlighted the considerable investments of EMNEs in advanced economies, including their aggressive acquisitions of AMNEs. These activities are primarily motivated by a quest to acquire traditional FSAs such as cutting-edge technologies and diverse managerial/coordination expertise, which EMNEs often lack (Buckley et al., 2016; Deng et al., 2020; Kumar et al., 2020). Although this evidence seems to align with the springboard argument, this paper draws attention to the discrepancy between the intended motives behind these acquisitions and the actual outcomes, suggesting a more complex reality.

Previous criticisms of this perspective have highlighted its inability to explain how EMNEs can venture abroad without initial or *ex-ante* ownership advantages (Ramamurti, 2012) and compete successfully with firms in advanced economies while simultaneously seeking to learn from them (Hennart, 2012; Lessard & Lucea, 2009; Ramamurti, 2009). This paper introduces additional doubts: while EMNEs may attain knowledge assets physically through acquisitions, effectively utilizing them to achieve their objectives might prove challenging due to the inherent characteristics of these knowledge assets and the EMNEs themselves. Consequently, attributing the springboard investment perspective as the sole theory that can explain EMNEs' internalization patterns might be premature. There is a need for more robust evidence to substantiate the ability of EMNEs to achieve their springboard investment objectives.

## Practical Implications

This paper offers practical insight for EMNE managers. The surge of OFDI in advanced economies and aggressive acquisitions of AMNEs by firms in emerging economies is a noteworthy trend (Narula & Lee, 2020). While the primary reason behind this trend is the acquisition of knowledge assets, EMNE managers must remain cognizant that acquiring these assets may not automatically translate into achieving their objectives. Utilizing knowledge assets obtained from advanced economies presents various challenges. For instance, consider Lenovo's acquisition of Motorola from Google, during which the CEO stated, "The acquisition of such an iconic brand, innovative product portfolio, and incredibly talented global team will immediately make Lenovo a strong global competitor in smartphones··· We will immediately have the opportunity to become a strong global player in the fast-growing mobile space" (BBC, 2014). Yet, the actual success of this acquisition remains uncertain. Regarding Lenovo's acquisition of IBM's PC division, previous scholars noted that "Lenovo still needs to have a sufficient level of technological resources to be able to manage the new organization and successfully integrate the new technological capabilities in its own organizational routines." (Wang et al., 2012, p. 428). Therefore, EMNE managers should understand that acquiring knowledge assets from AMNEs is only the beginning and not a guarantee of an enhancement of EMNEs' FSAs.

## Future Research Directions

This study suggests several directions for future research. First, future studies should examine the entire process of acquisitions by EMNEs and devote more attention to their outcomes. In particular, it is important to consider the best approach of achieving FSA upgrades based on acquisitions (Scalera et al., 2020). For instance, the extent of post M&A integration and the appropriate level of control and autonomy granted to the acquired firm can significantly influence the success of springboard acquisitions (Wang et al., 2014; Yaprak et al., 2018). Future studies exploring these factors will greatly enhance our understanding of EMNEs' catch-up strategies and FSA enhancement. In-depth case studies of high-profile acquisitions could be a valuable method for such research.

Second, given deteriorating geopolitical relationships, especially between the United States and China, as well as the rise of techno-politics (Luo & Van Assche, 2023; Meyer & Li, 2022), institutional and political factors are likely to play a larger role in EMNEs' cross-border acquisitions. Over the last decade, many developed economies have exerted control over EMNE acquisitions of AMNEs in the name of national security. Future research that considers these environmental conditions will be insightful for both academics and practitioners.

Finally, not all emerging economies or EMNEs are the same. As some emerging economies progress to become middle-income countries, some EMNEs from these economies may rise to join the ranks of more innovative and legitimate global players (Bruton et al., 2021). Some may no longer be internationally inexperienced and may have evolved into mature MNEs. Future research also needs to incorporate this line of thought to provide more nuanced insights.

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