Trends in Food Science & Technology 91 (2019) 662–669

Contents lists available at ScienceDirect

Trends in Food Science & Technology

journal homepage: www.elsevier.com/locate/tifs

Commentary

Explaining emerging-market firms' acquisitions of developed-market firms: A resource based perspective

Rosa Caiazza[a,*], Saikat Chaudhuri[b]

[a] Parthenope University of Naples, Italy
[b] The Wharton Business School of the University of Pennsylvania, USA

ARTICLE INFO

Keywords:
Emerging market studies
Future of management
International management
M&A

ABSTRACT

Background: The recent rise of emerging-market companies' (EMCs) acquisitions of developed-market companies (DMCs) has triggered a debate on the appropriateness of the traditional internationalization paradigm (i.e., OLI framework or internalization theory) in explaining these contemporary developments.

Scope and approach: We seek to help reconcile the views, by suggesting that assumptions of the existing paradigm must be adapted for the new phenomenon as the latter exhibits features inconsistent with the former's premises. We do so by offering a resource-based perspective that provides a more balanced focus on the role of both firm-specific and location-specific resources in the value creation of EMCs' acquisitions of DMCs.

Key Findings and Conclusions: Applying our conditional approach, we develop and test our propositions on the distinct antecedents, processes, and outcomes of such acquisitions as a point of departure for future work.

1. Introduction

Foreign direct investment (FDI) has assumed a central role in shaping the food industries in both developed and developing countries. Often, foreign investment takes the form of mergers and acquisitions that may have a negative impact on the sector's competitiveness. For this reason cross-border merger and acquisition (M&A) in agro-food has increasingly drawn the interest of scholars of management in the past decades (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). Among other insights, the traditional internationalization paradigm embodied by models such as the OLI framework or internalization theory has suggested that cross-border M&A is largely attributable to the acquirer's motive to exploit its firm-specific advantages (FSA) in a new geographic market with country-specific advantages (CSA) (Dunning, 1988; Hymer, 1970; Rugman, 2010). Accordingly, such a perspective compellingly explains the numerous cross-border acquisitions conducted by developed-market companies (DMCs) with FSA in emerging markets with CSA (Meyer, 2004).

However, in recent years, cross-border M&A in agro-food demonstrate new features which are least expected in the extant paradigm. Emerging-market companies ("EMCs"), which often do not have significant FSA (Ramamurti, 2012; Rugman, 2009), have emerged as a growing force of acquirers in the global M&A landscape. According to the UNCTAD World Investment Report, the total value of cross-border M&A conducted by emerging market buyers as a percent of the total value of all cross-border M&A surged from 8% in 1997 to 28% in 2017. The rise of emerging market acquirers was especially brought to the fore by several prominent deals in which EMCs acquired DMCs, including Lenovo's purchase of the PC unit of IBM, Tata's acquisition of Jaguar and Land Rover from Ford Motor Co. and Cemex's buyout of RMC Group, all of which have profoundly altered the competitive dynamics in their respective industries. Specifically, cross-border M&A in agro-food saw a contraction in activity in 2017, resulting from investment uncertainty. Despite this, 2017 M&A marked the fourth consecutive year in which cumulative deal values exceeded the $3tn mark. Cross-border activity continues to be prevalent, accounting for 35% of deals (albeit deal volumes are slightly down when compared to last year). This is largely considered an effort by deal makers to spread risk, so not to leave themselves overly exposed to geo-political uncertainty.

The internationalization of EMCs has triggered a debate on the appropriateness of the existing paradigm in explaining the new phenomenon (Cuervo-Cazurra, 2012). While some scholars defend the adequacy of the traditional lens (Dunning, Kim, & Park, 2008; Rugman, 2010), other scholars have put forth new theoretical perspectives (Luo & Tung, 2007; Mathews, 2006) or extensions of the existing paradigm (Cuervo-Cazurra, 2012; Hennart, 2012; Ramamurti, 2012) to accommodate the emerging developments. Reflecting on the debate in the context of EMCs' cross-border acquisitions of DMCs, we concur with the

* Corresponding author.
E-mail address: rosa.caiazza@uniparthenope.it (R. Caiazza).

https://doi.org/10.1016/j.tifs.2019.07.026
Received 4 December 2018; Received in revised form 19 March 2019; Accepted 17 July 2019
Available online 26 July 2019
0924-2244/

latter view and suggest that these new deals exhibit attributes which are inconsistent with the premises and arguments of the conventional view. In particular, EMCs differ from acquirers anticipated in the traditional paradigm in their resource position compared to their targets and thus might have distinct motivations, strategies and outcomes in the acquisition. Examining the traditional paradigm in the context of EMCs' acquisitions of DMCs thus enables us to revisit some of its underlying premises and extend it to better understand the antecedents, process and consequences of the contemporary phenomenon.

In this paper, we adopt a resource-based perspective to understand and conceptualize cross-border acquisitions conducted by EMCs in developed markets in agro-food industry (Anand & Delios, 2002; Hennart, 2009, 2012; Hennart & Park, 1993). We start with the academic consensus that EMCs often do not possess intangible, knowledge-based resources[1] (e.g. technologies, innovative capabilities) which bring them FSA and indeed often seek to acquire such resources from DMCs. Nevertheless, distinct from the traditional theory viewing such asset-seeking acquisitions of EMCs as an unsustainable mode of internationalization, we posit that its outcome or sustainability is highly contingent on the cost of acquiring and integrating such resources and the synergistic value that EMCs are able to realize. In particular, we suggest paying special attention to the location-specific resources of EMCs which often bring them CSA as an anchor to understand their motives, strategies and performance in their acquisition of intangible, knowledge-based resources from DMCs (Hennart, 2012). Building on the resource-based perspective in the international business literature (Anand & Delios, 2002; Hennart, 2012; Hennart & Park, 1993), we develop propositions to understand the antecedents, processes and outcomes of such deals and how they deviate from and extend the traditional paradigm. We contribute to the international business literature on agro-food through contextualizing the ongoing debate in a rising phenomenon and extending the existing paradigm with a deeper examination into their underlying premises and complementary perspectives. Finally, we empirically test our hypotheses on some interesting case studies.

2. Literature review

The Food and Agriculture Organization predicts that food demand will increase by 60% from 2016 to 2050. The primary drivers of the increase of demand is population growth of Africa and Asia. The growth of population belonging to emerging markets changes the level and composition of demand for agricultural and food products, the level of urbanization and the rise of the middle classes. Moreover, the GDP growth changes the preference for processed-food products leading to new tastes. The population and economic growth of emerging markets is changing the flow and volume of cross-border M&A from firms belonging to developing to firms belonging to developed countries. According to Land Matrix and International media emerging economies more involved in M&A are East Asia (ex. China), South America, Middle East and Gulf countries (ex. Sudan) (Caiazza, Volpe, 2017).

Developed regions attract cross-border M&A on fruits, vegetables and flowers and animal products like meat, poultry and dairy. Among developing regions, South American countries attract cross-border M&A in a wide range of products such as wheat, rice, sugar cane, fruits, flowers, soya beans, meat and poultry, while Central American countries attracts cross-border M&A has focused mostly on fruits and sugar cane (Caiazza, 2016; Caiazza, Richardson, & Audretsch, 2015). In Africa, foreign investors have shown a particular interest in rice, wheat and in oil crops, sugar cane, cotton and floriculture. In Asia, foreign investors have mainly targeted the large-scale production of rice and wheat, cash crops, meat and poultry. Cross-border inflows evidences the increasing attractiveness of developing regions (Asia, Oceania, Latin America and Caribbean) and of the transition economies (South-East Europe and the CIS) as hosts to M&A in agriculture. Other host countries which receive significant amounts of cross-border M&A include Asian countries, such as Cambodia, China, Indonesia, Viet Nam; Malaysia, the Republic of Korea and Turkey, and Latin American countries (Brazil and Chile, Ecuador, Costa Rica, Honduras and Peru). Among developed countries, important recipients include various European states such as France, Poland, Romania and the United Kingdom, Bulgaria, Hungary and Italy.

The classic eclectic paradigm has suggested that the internationalization of MNCs is mostly driven by the motivation to leverage their ownership of advantageous firm-specific resources (e.g., technologies) in a host country with location-specific advantages (e.g., cheap labor, rich natural resources) (Dunning, 1988). The paradigm was advanced by the internalization theory which simplified the OLI framework to a FSA-CSA matrix (Rugman, 1981; Rugman & Verbeke, 1990). The internalization theory further suggested that both FSA and CSA are essential for the sustainability of MNCs' internationalization (Rugman, 2009, 2010). Applying the traditional paradigm to the context of cross-border M&As, it would expect the dominance of DMCs with FSA acquiring targets located in geographic markets, either developed (Brouthers & Brouthers, 2000; Morosini, Shane, & Singh, 1998; Very, Lubatkin, Roland, & Veiga, 1997) or emerging (Luo & Park, 2001; Luo & Peng, 1999; Luo, Shenkar, & Nyaw, 2001; Uhlenbruck, 2004), which possess CSA.

As such, the emergence of EMCs as acquirers of targets located in the developed markets was least expected by the traditional theory. First, EMCs often do not possess intangible, knowledge-based resources which give them FSA over their targets in developed markets due to the economic and the technological distance between the emerging and developed economies (Ghemawat, 2001; Ramamurti, 2012; Tsang & Yip, 2007). Conversely, their strategic intent for the acquisitions might be to obtain such resources to build up their FSA and catch up with their competitors from the developed markets (Luo, Sun, & Wang, 2011; Luo & Tung, 2007). Second, it is apparent that developed markets are not locations with CSA outlined by the traditional paradigm. Indeed, scholars suggested that EMCs are often owners of the location-specific resources which generate CSA (Hennart, 2012; Ramamurti, 2012). The mismatch between the prediction of the traditional paradigm and EMCs' acquisitions of DMCs is illustrated in Fig. 1.

Proponents of the traditional view suggest the new phenomenon can still easily be explained by the existing theories (Dunning et al., 2008; Rugman, 2009), however, argue that such asset-seeking internationalization of EMCs is ill-advised and not sustainable (Rugman, 2010; Rugman & Li, 2007). Other scholars see it as a justified means through which EMCs can leverage their location-specific resources and learn from DMCs in order to catch up at a faster pace (Luo & Tung, 2007; Mathews, 2006). Even though it appears to be still too early to test the sustainability argument with empirics, data does show that the new phenomenon has grown in importance in recent years (UNCTAD, 2010). Therefore, many scholars in the field believe that it presents a good opportunity to extend the existing theory on the internationalization of MNCs (Cuervo-Cazurra, 2012; Hennart, 2012; Ramamurti, 2009, 2012). We concur with this view and further suggest that the traditional paradigm can be extended through revisiting some of its underlying assumptions challenged by the new phenomenon and complementing it with alternative perspectives.

Reviewing recent studies on emerging market MNCs, we suggest that there are three implicit premises of the traditional paradigm which are challenged by the new phenomenon. First, the traditional paradigm implicitly assumes that the rent for internationalization of MNCs comes

[1] In this paper, we do not make a distinction between resources (Amit & Schoemaker, 1993; Barney, 1991) and capabilities (Teece et al., 1997) as these concepts are often used interchangeably in the international business literature (Anand & Delios, 2002; Hennart, 2012). Therefore, we define resources in a broad manner which includes both resources and capabilities that are essential for value creation.

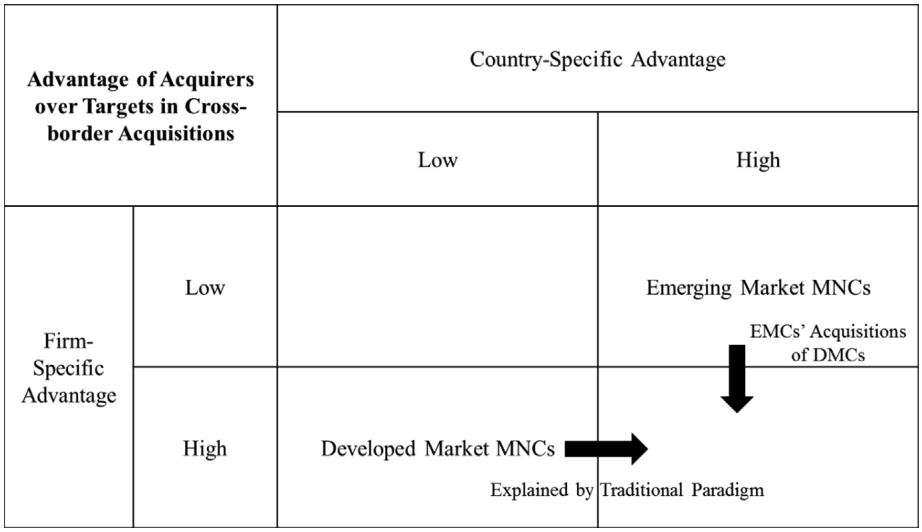

Fig. 1. EMCs' acquisitions of DMCs in the FSA-CSA matrix.

mostly from the exploitation of their FSA in the host country (Dunning, 1988; Dunning et al., 2008). Scholars suggest that EMCs often have difficulty in internalizing the FSA they acquire due to their lack of innovative capabilities, experience in international acquisition and managerial capabilities (Rugman & Li, 2007) and thus are not able to translate their targets' FSA to their own FSA which enables them to compete in the developed markets. In addition, they also suffer from both "liability of foreignness" ("LOF") (Zaheer, 1995) and "liability of emergingness" ("LOE") (Madhok & Keyhani, 2012) which makes the competition in the developed markets even tougher for them.

Nevertheless, other researchers suggest that EMCs might differ from the expectation of the traditional paradigm with respect to their strategic path of internationalization (Ramamurti, 2012; Williamson & Zeng, 2009). As Ramamurti notes, one plausible explanation of EMCs' acquisitions in developed markets is to "obtain technologies and brands primarily for exploitation in their home markets, not abroad" (2012: 43). It is also consistent with the "reverse internationalization" strategy researchers found in a sample of DMCs (e.g., U.S firms) (Seth, Song, & Pettit, 2002). In such a case, the rent of EMCs will predominantly come from exploiting the FSA-related resources they acquire in the home market. Nonetheless, it does not preclude the EMCs from building up their own FSA with such resources as well as the rent appropriated and venture into the host market at a later stage (Luo & Tung, 2007; Mathews, 2006; Williamson & Zeng, 2009).

Second, the traditional paradigm implicitly assumes that location-specific resources which generate CSA are equally available to all firms regardless of nationality (Hennart, 2012). When discussing the rise of Chinese MNCs, Rugman and Li note that the scale economies is a CSA of Chinese MNCs, however, "such scale advantages reflect a country factor available to all firms" (2007: 333). In contrast, it assumes less availability of firm-specific resources. As Rugman put it, "while emerging economy MNEs may want to acquire knowledge, there is no reason to believe that firms in the host countries will want to sell it to them" (2010: 8). Along with this logic, it makes more economic sense for DMCs to exploit their FSA in emerging markets by themselves rather than EMCs acquiring and exploiting it.

At the same time, the literature suggests that this assumption might not hold in emerging markets (Hennart, 2012; Madhok & Keyhani, 2012). For instance, Hennart (2012) argues that some "local complementary resources", such as natural resources or distribution channels, are costly to obtain or even inaccessible for foreign firms due to the imperfect factor market and the regulatory regime. Madhok and Keyhani (2012) suggest that EMCs accumulate experience in deals with the "institutional deficit", "fickle regulatory structure" and "vagaries" in the environment which are also intact in nature and difficult to be transferred to DMCs. Therefore, location-specific resources in emerging markets might not come cheap for foreign firms and it is also not justified to assume that they are more available than the FSA-related resources.

Third, the traditional paradigm presupposes that the intangible, knowledge-based resources (e.g. technology) which generate FSA are too costly or impossible to be internalized by EMC acquirers in a low technological position and thus EMCs are not able to realize the synergistic value arising from bundling FSA-related and CSA-related resources through their acquisitions in developed markets (Rugman, 2009, 2010; Rugman & Li, 2007). As Rugman notes, "even if home country firms attempt non-equity types of FDI, such as joint ventures or collaborative alliances, it is difficult to believe that knowledge is actually transferred to them in a dynamic sense" (2010).

We agree with the view on the difficulty of resource internalization for EMC acquirers; however, we also raise several questions:

(1) To what extent is internalization a prerequisite for synergy realization? It is apparent that not all the synergistic value needs to be unlocked by full integration of intangible, knowledge-based resources (e.g. brand spillover, complementary operation) (Capron & Hulland, 1999; Larsson & Finkelstein, 1999);
(2) Do all EMCs choose to internalize the FSA immediately? Some evidence seems to suggest that EMCs are not hasty in the post-acquisition integration (Cogman & Tan, 2010);
(3) Does the cost of internalization overshadow the benefit? To our knowledge, there is no empirical evidence supporting either way. However, scholars do suggest integrating location-specific resources also involves significant cost and is sometimes difficult to achieve (Anand & Delios, 1997, 2002; Hennart, 2012). Therefore, it is also difficult to compare the value creation potential between DMCs and EMCs as acquirers (Madhok & Keyhani, 2012).

We suggest that one way to reconcile the existing paradigm with the new phenomenon is to tailor its assumptions to the context of EMCs' acquisitions in developed markets and specify the conditions under which such deals are justified. To accommodate the features of the new phenomenon which are least expected by the traditional paradigm, we draw on a resource-based perspective with closer attention to the location-specific resources owned by EMCs as an anchor of theory development (Anand & Delios, 1997; Hennart, 2012; Madhok & Keyhani, 2012). In particular, we conceptualize EMCs' cross-border acquisitions in the developed markets as their efforts of reconfiguring resources in the global arena for the purpose of creating synergistic value with their location-specific resources in the home market (Hennart, 2012; Penrose, 1959; Rugman & Verbeke, 2002). We believe such an approach complements the existing paradigm with a more balanced focus on the role of both firm-specific and location-specific resources in the value creation of EMCs' cross-border acquisitions in developed markets and enables a more dynamic interpretation on the internationalization strategy of EMCs.

The resource-based view has long been recognized as an important theoretical foundation for theories on internationalization of MNCs (Anand & Delios, 2002; Rugman & Verbeke, 2002, 2003), especially in cross-border M&A (Datta & Puia, 1995; Madhok & Keyhani, 2012; Seth et al., 2002; Shimizu et al., 2004). In line with the synergy argument in the traditional acquisition literature (Harrison, Hitt, Hoskisson, & Ireland, 1991; Hitt, Harrison, & Ireland, 2001), cross-border M&A are viewed as a process of bundling resources from different geographic markets in order to create synergistic (or complementary) value for stakeholders (Hennart, 2012; Hennart & Park, 1993; Seth et al., 2002). Nevertheless, different from M&A in a local context, cross-border M&A deals are often characterized by more significant discrepancy between acquirers and targets due to the economic, institutional and cultural distance between home and host countries (Shimizu et al., 2004). Such a discrepancy is especially salient for deals in which EMCs acquire DMCs. Hennart (2012) suggests that EMCs' acquisition of DMCs can be better conceptualized as a process in which owners of local complementary resources seek to acquire and integrate intangible, knowledge-based resources. Likewise, Madhok and Keyhani (2012) propose that it represents the entrepreneurial endeavor of EMCs to reconfigure resources in the global arena. Even though such a resource configuration process is viewed a "weak form of FDI" based on the traditional paradigm (Rugman, 2010, p. 8), we believe that it might evolve into a strong form of internationalization under certain conditions.

The first condition is that the cost of acquiring local complementary resources for DMCs in emerging markets is higher than the cost of acquiring the intangible, knowledge-based resources for EMCs in developed markets. Hennart (2012) argued that the transaction cost of some local complementary resources in the emerging markets can be extremely high due to the imperfect factor markets and the regulatory regimes in emerging economies. Many location-specific resources are subject to local monopolies and not even available to foreign acquirers. On the contrary, developed markets are characterized by an abundant supply of knowledge-based resources as well as higher efficiency in resource allocation. Assuming return on the same bundle of location-specific resources and firm-specific resources are equal for EMCs and DMCs as acquirers, EMCs would be more motivated to initiate the acquisition.

The second condition is that the cost of integrating location-specific resources for DMCs in emerging markets is higher than the cost of integrating firm-specific resources for EMCs. Even though it is received wisdom that it is very difficult for EMCs in lower technological positions to integrate the intangible resources of DMCs (Rugman, 2009), researchers also suggest integrating location-specific resources incurs substantial costs as well (Anand & Delios, 1997). Moreover, the location-specific resources (e.g. local brand) might also have a certain level of firm specificity which make the integration more challenging for the acquirers (Anand & Delios, 2002). Therefore, it is likely that DMCs acquirers have a higher cost base of integration if they want to compete with EMC acquirers in the emerging market with the same bundle of firm-specific and location-specific resources.

The third condition is that full internalization is not essential to realize synergistic value in the short run. On the one hand, as aforementioned, not all the synergistic value needs to be unlocked by full integration of intangible, knowledge-based resources (e.g. brand spillover, complementary operation) (Capron & Hulland, 1999; Larsson & Finkelstein, 1999). On the other hand, we also note that it is possible to realize synergistic value in the short run under a certain level of integration (Child, Falkner, & Pitkethly, 2001) and there is no empirical evidence showing that full internalization need to be completed before the acquirers are able to tap into any synergistic value. Even though we concur that it is difficult and costly for EMCs to internalize the resources they acquire from DMCs, we also suggest that it does not preclude them from appropriating the synergistic value from the deals in the short run. Moreover, in the long run, it is also likely that EMCs will leverage the value and learning from such deals to enhance their absorptive capacity, which might substantially reduce the cost and difficulty of subsequent internalization at a later stage (Mathews, 2006).

In sum, we suggest that under the above three conditions, EMCs' acquisitions in the developed markets are justified means of internationalization and might have greater value creation potential than DMCs' acquisitions in the emerging markets. Drawing on the resource-based view, we suggest that EMCs have different resource endowments compared to acquirers expected by the traditional theory and the difference may result in distinct antecedents, processes as well as outcomes of such acquisitions. A deeper examination bears the opportunity of extending the existing paradigm on internationalization. In the next section, we will build on the resource-based perspective in the international business literature and develop propositions to further examine the new phenomenon.

3. Theory and propositions

3.1. Antecedents

3.1.1. Firm-level

The traditional paradigm suggests that firms with FSA tend to internationalize first in order to exploit their firm-specific resources (Dunning, 1988). In contrast, EMCs often do not have such resources (Ramamurti, 2012; Rugman & Verbeke, 1990) and one strategic intent for their acquisitions of DMCs is indeed to obtain such resources in order to exploit their location-specific resources in the home market (Hennart, 2012). In particular, the amount of the location-specific resources EMCs possess determines the extent to which the value of the firm-specific resources they acquired can be amplified and thus their payoffs in such cross-border acquisitions. Therefore, we suggest that the more location-specific resources EMCs possess in the home market, the more motivated they are to exploit them through acquisition of firm-specific resources from DMCs.

We suggest that location-specific resources can take many forms in emerging markets. One most commonly recognized form is a sales force or distribution channels (Anand & Delios, 2002; Hennart, 2012). On one hand, the sales force and distribution channels accumulate intimate knowledge about the preference of local customers over years. On the other hand, they also represent substantial location-specific investments to tailor sales (e.g. marketing, location of shops) to the taste of local customers. Another form of location-specific resources is local brand (Anand & Delios, 2002). As noted, a brand can be both firm-specific and location specific. A local brand might be of less value in a host market but is essential for the customers' loyalty in the home market. The strength of a local brand can be manifested in the market power of EMCs in their home markets (e.g. market share).

One type of local resource specific to emerging markets is cheap capital (Ramamurti, 2012) which come mainly from two sources. One is the subsidy from the local government. As noted, EMCs which have strong connections with the government are able to get access to cheap capital which finance both their growth and internationalization (Buckley et al., 2007). Another source of the cheap capital is the diversification of business groups. As various scholars have noted, emerging markets are characterized by "institutional voids" which mainly indicate to the inefficient capital markets (Khanna & Palepu, 2000). Many EMCs resort to unrelated diversification in order to build internal capital market to finance their own growth (Khanna & Palepu, 1997). It might give them a "cost of capital" advantage over DMCs with more focused strategies and mostly relying on external capital markets for capital, especially in the home markets (Bartlett & Ghoshal, 2000). Nevertheless, such cheap capital might have high location specificity due to the strict foreign exchange control in some emerging economies (e.g. China).

Overall, we suggest that the more location-specific resources EMCs possess, the more motivated EMCs are to exploit them through acquisition of firm-specific resources from DMCs. Therefore, we propose:

Proposition 1. *The amount of location-specific resources owned by EMCs, which is manifested in their* (*a*) *distribution channels*, (*b*) *strength of brand*, (*c*) *connections with government and* (*d*) *diversification level in the local market, is positively related to the likelihood of their cross-border acquisition of DMCs*.

3.1.2. Country-level

As noted above, resources EMCs own are mostly location-specific in nature. Thus, the return or value of these resources is subject to environmental changes in the local market. In particular, we suggest that changes in the home country conditions which decrease the return of location-specific resources might create time pressure for EMCs to exploit them through acquiring firm-specific resources from DMCs. Recent work also suggests that home market environment has significant impact on the tendency of EMCs to venture into developed countries (Luo & Wang, 2012; Madhok & Keyhani, 2012). Here, we focus on three home country conditions which affect the return on location-specific resources in the emerging markets.

The first home market condition is the competitive pressure (Luo & Wang, 2012). Intensifying competition in the local market as a result of the increasing entries of local players leads to the rising supply of location-specific resources. It thus dampens the value of such resources and lowers the cost of cross-border acquisitions for DMCs. The second home market condition is internationalization at the market level. We concur with prior studies that local customers have preference or taste which is location-specific (Hennart, 2012), however, we also believe that the taste of local customers changes over time. With the increasing entries of DMCs, it is reasonable to assume that the taste of local customers might become more globalized which makes the location specificity of some resources (e.g. local brand) less important or even a liability. The third home country condition is the marketization (Madhok & Keyhani, 2012). As emerging markets become more liberalized, the government might play a less important role in assisting the growth of EMCs. With the capital market becoming more mature and efficient in allocating capital, EMCs might be forced to switch to more focused strategies in order to build their firm-specific resources for local competition (Khanna & Palepu, 1997). At the same time, they might have to forfeit their "cost of capital" advantage gained from diversification. All these changes at the market level will result in the decreasing value of the location-specific resources owned by EMCs and put a time pressure on them to exploit them through acquiring firm-specific resources from DMCs. Therefore, we propose:

Proposition 2. *The decreasing return or value of location-specific resources owned by EMCs, which results from the increase of* (*a*) *competitive pressure*, (*b*) *internationalization and* (*c*) *marketization in the home market, is positively related to the likelihood of their cross-border acquisition of DMCs*.

3.2. Processes

3.2.1. Target selection

Traditional internationalization theory has suggested different motives of internationalization (e.g. asset, resource, market or efficiency-seeking) determine the selection of targets (Dunning, 1988). It further specifies the advantage of internalizing location-specific resources as a justification for internationalization. Drawing on this logic, several scholars conclude that EMCs might lack of absorptive capacity to internalize the firm-specific resources owned by their DMC targets and thus their cross-border acquisitions in developed markets might not be beneficial and sustainable (Rugman, 2010; Rugman & Li, 2007).

While agreeing on the difficulty of EMCs in internalizing the proprietary resources owned by DMCs, we suggest that the challenge can be mitigated through the selection of targets. As mentioned above, the purpose of EMCs' acquisitions in the developed markets is to exploit their location-specific resources. Thus, achieving complementarity through integration is a more immediate task for them than learning through internalization. Rather than selecting DMC targets which are in much higher technological positions and can significantly broaden their knowledge base (Vermeulen & Barkema, 2001), EMCs might be more likely to select DMCs whose proprietary resources are more compatible with their local-specific resources or have already been proven to be complementary with their local-specific resources as their acquisition targets. The complementarity is especially clear if the DMCs have already been upstream suppliers for EMCs. It, on one hand, creates immediate synergy for the EMC acquirers, and on the other hand, makes the future internalization much easier. Therefore, we propose:

Proposition 3. *The likelihood of acquiring upstream suppliers is significantly higher for deals in which EMCs are acquiring DMCs than for other cross-border M&A deals*.

3.2.2. Execution strategy

Prior studies suggest that it is difficult to identify and assess the value of intangible, knowledge-based resources in cross-border M&A (Delios & Beamish, 1999; Shimizu et al., 2004). It is especially challenging for EMCs which often do not have sufficient technological capabilities and thus absorptive capacity (Ramamurti, 2009). Even though they might not face immediate internalization challenges as discussed above, they still need to identify and assess the complementarity of their potential targets with them. To lower the risk, we suggest that EMCs might adopt a sequential acquisition strategy through which they can evaluate the complementarity between them and their potential acquisition targets with risk under control. Such a sequential acquisition strategy might take the form of a minority stake investment, strategic alliance or joint venture followed by an acquisition. Therefore, we propose:

Proposition 4. *The likelihood of sequential acquisition strategy being adopted is significantly higher for deals in which EMCs are acquiring developed market firms than for other cross-border M&A deals*.

3.2.3. Price

Some researchers have found that EMCs tend to bid higher compared to developed market firms due to "national hubris" (Hope, Thomas, & Vyas, 2011) and such price premium might make their cross-border acquisitions value-destroying (Aybar & Ficici, 2009). However, other studies have also found that EMCs' acquisitions of DMCs do create value for shareholders of EMCs (Gubbi, Aulakh, Ray, Sarkar, & Chittoor, 2010). The inconsistency in the findings seems to suggest that for cross-border acquisition by EMCs in developed markets, the price premium might not be an accurate indicator on the appropriateness of the pricing.

As we proposed earlier, the strategic intent of EMCs' acquiring DMCs is to leverage its location-specific resources in the home market. Thus, controlling for the effect of "national hubris", the price premium that EMCs are willing to pay for the DMC targets should be less than the synergistic value of bundling the firm-specific resources they acquire with their location-specific resources. We suggest that the greater the value of the location-specific resources owned by EMCs is, the greater the synergistic value EMCs can expect and the higher the price premium EMCs would offer to pay for the DMC targets. Therefore, we propose:

Proposition 5. *The amount of location-specific resources owned by EMCs,* *which is manifested in their (a) distribution channels, (b) strength of brand, (c) connections with government and (d) diversification level in the local market, is positively related to the price premium they pay for their DMC targets.*

3.2.4. Integration strategy

The traditional paradigm suggests that internalization is challenging for EMCs due to their low technological positions compared to their DMC targets (Rugman, 2010). Notwithstanding that point, we argue that internalization is not essential for EMCs to achieve the immediate synergy they expect from acquisitions. Indeed, a recent study shows EMC acquirers tend not integrate their targets (Cogman & Tan, 2010). We suggest that the integration of DMCs by EMCs can not only be costly, but also dampen the value of the firm-specific resources of DMCs. In particular, such firm-specific resources are mostly dynamic in nature (e.g. innovative capabilities) and need to be kept intact for continuous value creation (Teece, Pisano, & Shuen, 1997). To the extent that the synergy can be achieved between EMCs' location-specific resources and targets' proprietary resources, we suggest that EMCs are less motivated to integrate or internalize the proprietary resources from its DMC targets (Madhok & Keyhani, 2012). Therefore, we propose:

Proposition 6. *The likelihood of immediate restructuring in the acquired firm is significantly lower for deals in which EMCs are acquiring developed market firms than for other cross-border M&A deals.*

3.3. Outcomes

3.3.1. Home country

The traditional paradigm assumes that the return for MNCs in internationalization comes mostly from exploitation of their firm-specific resources and advantage in the host market (Dunning, 1988; Rugman & Verbeke, 1990). However, several scholars suggest that value might be created through "reverse internationalization" (Seth et al., 2002). Considering the synergistic value EMCs can achieve in their home market together with the substantial risks and costs of entry into developed markets, we suggest that it is pragmatic to assume that EMCs will first exploit its location-specific resources in the home markets with the firm-specific resources acquired rather than rushing into the developed market (Ramamurti, 2012). Based on this premise, we suggest that it makes more sense to evaluate the outcome of EMCs' acquisition of DMCs with home market performance change, at least in the short run. Considering the synergistic value that EMCs expect from the resources bundle, we suggest that EMCs' acquisition of DMCs can enhance the performance of EMCs in their home markets. Therefore, we propose:

Proposition 7. *EMCs' acquisitions of DMCs enhance their performance in the home market in the short run.*

3.3.2. Host country

Even though we suggest that the initial strategic intent of EMCs acquiring DMCs is "reverse internationalization", it does not preclude them from venturing into the developed markets in the future once they build up their firm-specific resource base in the home market (Madhok & Keyhani, 2012; Williamson & Zeng, 2009). Especially for those EMCs which acquire proprietary resources from DMCs, they are presented with good opportunities to internalize these resources and develop their own proprietary resources which generate FSA. Moreover, the rent they appropriate from the complementarity of the resource bundle created through their acquisitions of DMCs will provide organizational slack which accelerate their resources building process. These new firm-specific resources will enable them to compete with DMCs and enhance their performance in the developed markets in the long run. Therefore, we propose:

Proposition 8. *EMCs' acquisitions of DMCs enhance their performance in the host market in the long run.*

4. Empirical analysis

Cross-border M&A in agrofood industry involves firms operating at several level of global value chain (GVC), from the production of inputs (pesticides, seeds and fertilizers) to trading and logistics, processing and retailing. Among producers of inputs, pesticides market is driven by Big six (Bayer, BASF, Dow, DuPont, Monsanto, and Syngenta). The Big six of pesticides sector when combined with the seeds sector control the 70% of sector. The past several years have seen mega-mergers between within the major producers of inputs such as Monsanto-Bayer ($64 million), Dow-DuPont ($130 million), and Syngenta-ChemChina ($43 million). Among multinationals in down-stream stages of value chains, largest food and beverages manufacturers with head-quartered in developed countries are Fraser and Neave, Nestlé, Inbev and Kraft Foods. Among retailing and supermarket the largest multinational is Wal-Mart.

Taking the global value chain as a whole, agriculture accounted for 5% of total cross-border M&As and food processing for 95%. A large proportion of cross-border M&A is undertaken by multinationals operating primarily in food processing and trade and leads to vertical integration. Agriculture alone accounts for only a small part of the total value of net cross-border M&As, which is dominated by the food processing industry (Caiazza, 2017, Caiazza, R., Ferrara, G. 2016). Food multinationals are major investors in primary production, distribution and marketing of food products. They are driven by market-seeking motives related to local sales in host countries and resource-seeking ones related to exports.

According to International Panel of Experts on Sustainable Food Systems (IPES-Food), because of mega-mergers dominant agri-food firms have become too big to feed humanity sustainably, too big to operate on equitable terms with other food system actors, and too big to drive the types of innovation we need. M&A activity has been prolific in every part of the food chain, including the merger between companies PotashCorp-Agrium, ABInBev-SABMiller, Glencore-Bunge Ltd., Heinz-KraftFoods and KraftHeinz-Unilever, Amazon-Whole Foods Market.

The merger between agro-chemical giants Dow-DuPont ($130 billion), Bayer-Monsanto ($66 billion), ChemChina-Syngenta ($43 billion) and its successive merger with Sinochem (Caiazza, R., Stanton, J., 2016, Caiazza, 2015). These deals alone will place as much as 70% of the agrochemical industry in the hands of only three merged companies. Specifically, the ChemChina acquisition of Syngenta made ChemChina the world's biggest producer of pesticides and agrochemicals. The huge amount of location-specific resources in terms of distribution channels, strength of brand and connections with government and the increase of competitive pressure, internationalization and marketization in the home market of ChemChina positivelly affected the cross-border acquisition of the Swiss Syngenta. The acquisition of upstream suppliers and sequential acquisition is a strategy of ChemChina to enter in developed markets. The amount of location-specific resources owned by ChemChina, (distribution channels, strength of brand, connections with government and diversification level) in the local market, has affected the price premium they pay for Syngenta. Syngenta's decision to accept ChemChina's offer is a setback for Monsanto, the genetically modified seed producer, which has also tried to buy the Basel-based company. Monsanto made an offer valued at almost $47bn for Syngenta last year but that bid was rejected by the Swiss company's previous management. ChemChina's did not do an immediate restructuring in the acquired firm. Moreover ChemChina's acquisitions of Syngenta enhances its performance in both the home market and in the host market. The deal will open many opportunities to expand further in pesticides and to develop seeds business while getting greater access to emerging markets, in particular China. The scale and speed of such M&A will led global food and agriculture into a new era of uncertainty, with significant implications for food security and food system sustainability.

5. Conclusion

Several challenges and new trends in agrofood industry are leading emerging market firms to realize cross-border M&A in developed markets. Changing consumer tastes and shifting consumer behaviour, new technology and digitalization, cheap debt and high levels of cash held by strategic and private equity buyers are driving the market and valuations across the industry. The increasing trend in retail to swap branded products for private label, a slow-down in organic growth and shareholder activism are forcing large companies to strengthen their portfolios, to embrace an agile operating business model and to seek for new markets. Start-ups utilizing the changing market place for new offerings. M&A will remain as a way to pivot the portfolio towards growth and improve market structure. The strongest companies are using M&A as well to achieve visionary and strategic goals. The development of organic food & beverages has been one of the most noticeable trends in the Food industry. Rapid growth figures fuelled by increased demand and the introduction of new innovative products and services have created new challenges for companies across the entire supply chain. Transformation to an organic product portfolio has proven to be difficult for the incumbent producers whereas M&A could be a valuable strategy to climb the latter.

In view of the phenomenon of emerging market firms acquiring companies from developed markets in agrofood, there is a debate on the appropriateness of the traditional internationalization paradigm in explaining these contemporary developments. We thus propose a resource-based perspective to help reconcile the debate and provide a path forward, as the new phenomenon exhibits features inconsistent with the existing paradigm's premises. Applying our conditional approach, which seeks to provide a more balanced focus on the role of both firm-specific and location-specific resources in the value creation of EMCs' acquisitions of DMCs, we develop several testable propositions on the distinct antecedents, processes, and outcomes of such acquisitions. In doing so, we offer a point of departure for future work in the managerial field, especially empirical studies, as the phenomenon gradually unfolds before us over time.

References

Amit, R., & Schoemaker, P. J. H. (1993). Strategic assets and organizational rent. *Strategic Management Journal, 14*(1), 33–46.

Anand, J., & Delios, A. (1997). Location specificity and the transferability of downstream assets to foreign subsidiaries. *Journal of International Business Studies, 28*(3), 579–603.

Anand, J., & Delios, A. (2002). Absolute and relative resources as determinants of international acquisitions. *Strategic Management Journal, 23*(2), 119–134.

Aybar, B., & Ficici, A. (2009). Cross-border acquisitions and firm value: An analysis of emerging-market multinationals. *Journal of International Business Studies, 40*, 1317–1338.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management, 17*(1), 99–120.

Bartlett, C. A., & Ghoshal, S. (2000). Going global: Lessons from late movers. *Harvard Business Review, 78*(2), 132–142.

Brouthers, K. D., & Brouthers, L. E. (2000). Acquisition or greenfield start-up? Institutional, cultural and transaction cost influences. *Strategic Management Journal, 21*(1), 89–97.

Buckley, P., Clegg, L., Cross, A., Liu, X., Voss, H., & Zheng, P. (2007). The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies, 38*(4), 499–518.

Caiazza, R. (2015). Explaining innovation in mature industries: Evidences from Italian SMEs. *Technology Analysis & Strategic Management, 27*(8), 975–985 September.

Caiazza, R. (2016). Internationalization of SMEs in high potential markets. *Trends in Food Science & Technology, 58*(1 December), 127–132. https://doi.org/10.1016/j.tifs.2016.10.002 ISSN: 09242244, Classe A Anvur 13B2, SJR Best Quartile Q1.

Caiazza, R. (2017). Innovation for sustainability: A conceptual framework. *The Journal of Management Development, 36*(1), 37–47.

Caiazza, R., & Ferrara, G. (2016). Economic geography and multipolar strategies: An empirical analysis. 11 April *The Journal of Management Development, 35*(3), 394–405. https://doi.org/10.1108/JMD-08-2014-0090 ISSN: 02621711, Classe A Anvur 13B2, SJR Best Quartile Q1.

Caiazza, R., Richardson, A., & Audretsch, D. B. (2015). Knowledge effects on competitiveness: From firms to regional advantage. *The Journal of Technology Transfer, 40*(6), 899–909 17 July.

Caiazza, R., & Stanton, J. (2016). The effect of strategic partnership on innovation: An empirical analysis. *Trends in Food Science & Technology, 54*, 208–212 1 August.

Caiazza, R., & Volpe, T. (2017). Innovation and its diffusion: Process, actors and actions. *Technology Analysis & Strategic Management, 29*(2), 181–189.

Capron, L., & Hulland, J. (1999). Redeployment of brands, sales forces, and general marketing management expertise following horizontal acquisitions: A resource-based view. *Journal of Marketing, 63*(2), 41–54.

Child, J., Falkner, D., & Pitkethly, R. (2001). *The management of international acquisitions.* Oxford, U.K: Oxford University Press.

Cogman, D., & Tan, J. (2010). A lighter touch for post-merger integration. *McKinsey Quarterly, 34*, 8–12.

Cuervo-Cazurra, A. (2012). Extending theory by analyzing developing country multinational companies: Solving the goldilocks debate. *Global Strategy Journal, 2*(3), 153–167.

Datta, D. K., & Puia, G. (1995). Cross-border acquisitions: An examination of the influence of relatedness and cultural fit on shareholder value creation in U.S. Acquiring firms. *MIR: Management International Review, 35*(4), 337–359.

Delios, A., & Beamish, P. W. (1999). Ownership strategy of Japanese firms: Transactional, institutional, and experience influences. *Strategic Management Journal, 20*(10), 915–933.

Dunning, J. (1988). The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies, 19*(1), 1–31.

Dunning, J., Kim, C., & Park, D. (2008). Old wine in new bottles: A comparison of emerging-market TNCs today and developed-country TNCs thirty years ago. In K. Sauvant (Ed.). *The Rise of transnational Corporations from emerging markets: Threats or opportunity? Northampton*. MA: Edward Elgar.

Ghemawat, P. (2001). Distance still matters. The hard reality of global expansion. *Harvard Business Review, 79*(8), 137–147.

Gubbi, S. R., Aulakh, P. S., Ray, S., Sarkar, M. B., & Chittoor, R. (2010). Do international acquisitions by emerging-economy firms create shareholder value? The case of Indian firms. *Journal of International Business Studies, 41*(3), 397–418.

Harrison, J. S., Hitt, M. A., Hoskisson, R. E., & Ireland, R. D. (1991). Synergies and post-acquisition performance: Differences versus similarities in resource allocations. *Journal of Management, 17*(1) 173-173.

Hennart, J.-F. (2009). Down with MNE-centric theories! Market entry and expansion as the bundling of MNE and local assets. *Journal of International Business Studies, 40*(9), 1432–1591.

Hennart, J.-F. (2012). Emerging market multinationals and the theory of the multinational enterprise. *Global Strategy Journal, 2*(3), 168–187.

Hennart, J.-F., & Park, Y.-R. (1993). Greenfield vs. Acquisition: The strategy of Japanese investors in the United States. *Management Science, 39*(9), 1054–1070.

Hitt, M., Harrison, J. S., & Ireland, D. (2001). *Mergers and acquistions: A guide to creating value for stakeholders.* New York: Oxford University Press.

Hope, O.-k., Thomas, W., & Vyas, D. (2011). The cost of pride: Why do firms from developing countries bid higher? *Journal of International Business Studies, 42*(1), 128–151.

Hymer, S. (1970). The efficiency (contradictions) of multinational corporations. *The American Economic Review, 60*(2), 441–448.

Khanna, T., & Palepu, K. (1997). Why focused strategies may be wrong for emerging markets? *Harvard Business Review,* 41–51 July-August.

Khanna, T., & Palepu, K. (2000). The future of business groups in emerging markets: Long-run evidence from Chile. *Academy of Management Journal, 43*(3), 268–285.

Larsson, R., & Finkelstein, S. (1999). Integrating strategic, organizational, and human resource perspectives on mergers and acquisitions: A case survey of synergy realization. *Organization Science, 10*(1), 1–26.

Luo, Y., & Park, S. H. (2001). Strategic alignment and performance of market-seeking MNCs in China. *Strategic Management Journal, 22*(2), 141–155.

Luo, Y., & Peng, M. W. (1999). Learning to compete in a transition economy: Experience, environment, and performance. *Journal of International Business Studies, 30*(2), 269–295.

Luo, Y., Shenkar, O., & Nyaw, M.-K. (2001). A dual parent perspective on control and performance in international joint ventures: Lessons from a developing economy. *Journal of International Business Studies, 32*(1), 41–58.

Luo, Y., Sun, J., & Wang, S. L. (2011). Emerging economy copycats: Capability, environment, and strategy. *Academy of Management Perspectives, 25*, 37–56.

Luo, Y., & Tung, R. (2007). International expansion of emerging market enterprise: A springboard perspective. *Journal of International Business Studies, 38*(4), 481–498.

Luo, Y., & Wang, S. L. (2012). Foreign direct investment strategies by developing country multinationals: A diagnostic model for home country effects. *Global Strategy Journal, 2*(3), 244–261.

Madhok, A., & Keyhani, M. (2012). Acquisitions as entrepreneurship: Asymmetries, opportunities, and the internationalization of multinationals from emerging economies. *Global Strategy Journal, 2*(1), 26–40.

Mathews, J. A. (2006). Dragon multinationals: New players in 21st century globalization. *Asia Pacific Journal of Management, 23*(1), 5–5+.

Meyer, K. (2004). Perspectives on multinational enterprises in emerging economies. *Journal of International Business Studies, 35*, 259–276.

Morosini, P., Shane, S., & Singh, H. (1998). National cultural distance and cross-border acquisition performance. *Journal of International Business Studies, 29*, 137–158.

Penrose, E. (1959). *The theory of the growth of the firm.* New York: Oxford University Press.

Ramamurti, R. (2009). What have we learned about emerging market MNEs? In R. Ramamurti, & J. Singh (Eds.). *Emerging multinationals from emerging markets.* Cambridge, U.K.: Cambridge University Press.

Ramamurti, R. (2012). What is really different about emerging market multinationals? *Global Strategy Journal, 2*(1), 41–47.

Rugman, A. M. (1981). *Inside the multinationals: The economics of internal markets.* New York: Columbia University Press.
Rugman, A. M. (2009). Theoretical aspects of MNEs from emerging countries. In R. Ramamurti, & J. Singh (Eds.). *Emerging Multinations in emerging markets: 42-63.* Cambridge, U.K.: Cambridge University Press.
Rugman, A. M. (2010). Reconciling internalization theory and the eclectic paradigm. *Multinational Business Review, 18*(2), 1–12.
Rugman, A. M., & Li, J. (2007). Will China's multinationals succeed globally or regionally? *European Management Journal, 25*(5), 333–343.
Rugman, A. M., & Verbeke, A. (1990). *Global corporate strategy and trade policy.* London, U.K: Routledge.
Rugman, A. M., & Verbeke, A. (2002). Edith penrose's contribution to the resource-based view of strategic management. *Strategic Management Journal, 23*(8), 769–780.
Rugman, A. M., & Verbeke, A. (2003). Extending the theory of the multinational enterprise: Internalization and strategic management perspectives. *Journal of International Business Studies, 34*(2), 125–137.
Seth, A., Song, K. P., & Pettit, R. R. (2002). Value creation and destruction in cross-border acquisitions: An empirical analysis of foreign acquisitions of U.S. firms. *Strategic Management Journal, 23*(10), 921–940.
Shimizu, K., Hitt, M. A., Vaidyanath, D., & Pisano, V. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. *Journal of International Management, 10*(3), 307–353.
Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal, 18*(7), 509–533.
Tsang, E. W. K., & Yip, P. S. L. (2007). Economic distance and the survival of foreign direct investments. *Academy of Management Journal, 50*(5), 1156–1168.
Uhlenbruck, K. (2004). Developing acquired foreign subsidiaries: The experience of MNES in transition economies. *Journal of International Business Studies, 35*(2), 109–123.
UNCTAD (2010). *Investing in a low-carbon economy.* Geneva: United Nation.
Vermeulen, F., & Barkema, H. (2001). Learning through acquisitions. *Academy of Management Journal, 44*(3), 457–476.
Very, P., Lubatkin, M., Roland, C., & Veiga, J. (1997). Relative standing and the performance of recently acquired european firms. *Strategic Management Journal, 18*(8), 593–614.
Williamson, P., & Zeng, M. (2009). Chinese multinationals: Emerging through new gateways. In R. Ramamurti, & J. Singh (Eds.). *Emerging multinationals in emerging markets*. Cambridge, U.K: Cambridge University Press.
Zaheer, S. (1995). Overcoming the liability of foreignness. *Academy of Management Journal, 38*(2), 341–363.