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**Strategic Asset Seeking BY EMNe**s**:
A MATTER OF LiabilitIES oF FOREIGNNESS - OR Outsidership?**

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**Abstract**

* The chapter succumbs an economic explanation and perspectivation of strategic asset seeking of multinational enterprises from emerging economies (EMNEs) as a prominent feature of today’s global economy.
* The authors apply and extend the “springboard perspective”. This perspective submits that EMNEs acquire strategic assets in developed markets primarily for use in their home markets. The perspective is alluring theoretically as well as empirically, as it suggests that when EMNEs acquire strategic assets, they experience liabilities of foreignness (LOF) that are low relative to those of MNEs from developed markets.
* The authors concede to this LOF asymmetry but also point out that liabilities of outsidership (LOO) can offset or weaken the home-market advantage of some EMNEs when competing with MNEs. As such, LOO appears as the more relevant concept to use when explaining strategic asset seeking of EMNEs. A set of propositions are formulated to guide empirical testing.

Keywords: Conceptual paper, EMNEs, strategic assets, liabilities of outsidership.

**Introduction**

A remarkable characteristic of emerging-market multinational enterprises (EMNEs) has been their tendency to acquire strategic assets in developed markets. Such assets often include cutting-edge technologies and widely recognized brands (Athereye & Kapur, 2009; Gammeltoft, 2008; OECD, 2009; Rugman, 2009; Rabbiosi, Elia, & Bertoni, 2012; UNCTAD, 2006). Lenovo’s acquisition of IBM’s PC business, Shanghai Motor’s purchase of UK-based Rover, TLC’s purchase of Thomson TV, and China Zhejiang Geely Holding Group’s takeover of Volvo Car Corporation from the Ford Motor Corporation are notable examples. Such strategic asset seeking has been described as a way for latecomers to catch up with multinational enterprises from developed markets (MNEs) and as a fast track to acquiring ownership advantages[[2]](#footnote-2) (Buckley, Elia, & Kafouros, 2010; Cuervo-Cazurra & Genc, 2008; Deng, 2009; Mathews, 2002, 2006; Rui & Yip, 2008; Tang, Gao, & Li, 2008; Wu, Ding, & Shi, 2012).

The springboard perspective (Luo & Tung, 2007; Ramamurti, 2012) submits that EMNEs acquire strategic assets in developed markets not only to attain competitiveness in developed markets, but also – and, perhaps, mainly – for use in their home markets. In a seminal article from 2007, Luo and Tung featured this springboard perspective:

We suggest that EMNEs systematically and recursively use international expansion as a springboard to acquire critical resources needed to compete more effectively against their global rivals at home and abroad. […] They are also recursive because such “springboard” activities are recurrent … and revolving (i.e., outward activities are strongly integrated with activities back home). […] Springboard links a firm’s international expansion with its home base. […] Viewed in this manner, the global success of such EMNEs is still highly dependent on their performance at home. […] Furthermore, it is foolish for these EMNEs to ignore their home markets while multinationals from advanced and newly industrialized countries are strongly attracted to the opportunities, and hence huge profit potential, posed by emerging economies. Because these global rivals face liabilities of foreignness whereas EMNEs enjoy home court advantage, it is counterproductive for EMNEs not to capitalize on their home markets and home bases. (2007, p. 484-485)

In a more recent article, Ramamurti referred to the springboard perspective in the following way:

EMNEs go abroad to obtain technologies and brands *primarily for exploitation in their home markets, not abroad.* For firms from large, high-growth markets, such as China, Brazil, or India, this makes strategic sense. When EMNEs from these countries acquire companies abroad, they may appear to engage in market-seeking internationalization when, in fact, they are engaged in strategic asset seeking. (2012, p. 43)

This perspective is empirically appealing, especially in the wake of the economic crisis that has affected the western world since 2008. The economic crisis in the developed countries, which has stood in sharp contrast to the uninterrupted growth in the emerging markets, has accentuated the benefits available to EMNEs wishing to follow sourcing-oriented internationalization paths. In other words, EMNEs can derive significant positive effects from engaging in strategic asset seeking in developed markets with the primary objective of exploiting those assets in their home markets. The economic crisis in the developed countries appears to have lowered the costs of acquiring assets, in general, while the continuous growth in emerging markets has increased the value of employing acquired assets in those markets (Sauvant, McAllister, & Maschek, 2010).

However, a pertinent question arises from the springboard perspective: *Under what conditions* *are EMNEs better positioned than MNEs to exploit assets acquired in developed markets?* In other words, why are EMNEs more able than MNEs to take advantage of advanced technologies and strong brands in developed *and* emerging markets?

The literature on EMNEs’ internationalization offers two possible answers to this question. The first is essentially a government-support explanation. Some EMNEs – especially Chinese state-owned enterprises (SOEs) – have access to low-cost, risk-willing capital provided by the government or, indirectly by other SOEs via a cross-subsidizing system (Child & Rodrigues, 2005; Morck, Yeung, & Zhoa, 2008; Nolan, 2001; Sutherland, 2009; Williamson & Zeng, 2009; Yiu, 2010). The required return for the acquired strategic assets is accordingly low. The second answer is a global-consolidator explanation proposed by Ramamurti and Singh (2009) and Ramamurti (2012). In certain mature industries, such as steel and the meat-processing, the champion firms from emerging markets sometimes consolidate the industry on a global scale through aggressive acquisitions. Such firms include Arcelor Mittal Steel founded in India in 1978 as Ispat International (and operated by Lakshmi Mittal since 1995) and Brazil’s J&F Participações SA, a holding company that controls world-leading meatpacker JBS SA. Scale and scope economies, as well as potential collusion economies, drive the strategic asset seeking of such “global consolidators” (Ramamurti & Singh, 2009).[[3]](#footnote-3)

Whereas both explanations appear plausible and well documented, they limit the empirical scope and applicability of the springboard perspective. If we accept these two explanations, then the springboard perspective essentially applies only to: (1) Chinese SOEs engaged in acquisitions that the government believes to be of strategic importance and therefore eligible for low-cost, risk-willing capital; and (2) global consolidators from emerging markets. As an additional restriction, Ramamurti (2012) asserts that the springboard perspective only is relevant to EMNEs with large home country markets, such as China and Brazil. In this light, the springboard perspective has little relevance for the majority of MNEs, which are neither Chinese SOEs nor global consolidators. As such, therefore, the springboard perspective does not seem to qualify as a general model for strategic asset seeking EMNEs but rather as an explanation for a relatively few “special cases”.

However, we extend the literature on EMNEs by arguing that the springboard perspective may apply to a wider population of EMNEs across countries and industries. Our argument revolves around liability of foreignness - LOF (Zaheer, 1995) and the liability of outsidership - LOO (Johanson & Vahlne, 2009) [[4]](#footnote-4). In short, we argue that asymmetries exist between the LOFs as experienced by MNEs and EMNEs such that, all else equal, it is easier for EMNEs to succeed in developed markets than it is for MNEs to succeed in emerging markets. This LOF asymmetry puts EMNEs in a better position than MNEs to exploit technologies and brands acquired in developed markets in their home markets. Furthermore, we argue that a large home country (such as Brazil, Russia, India, or China) is not an indispensable precondition for the relevance of the springboard perspective, as the perspective may also apply for EMNEs from smaller emerging markets, such as Vietnam or Chile (del Sol & Kogan, 2007). We suggest that these two extensions of the applicability of the springboard perspective qualify it as a general explanation for EMNEs’ acquisitions of strategic assets in western markets.

In addition, our use of the LOF concept rests on the assumption that *all* EMNEs possess an advantage over MNEs with regards to the exploitation of acquired foreign assets in their home market or region. In this regard, we include a discussion of whether this assumption holds true, or whether it is an oversimplification to ascribe insidership to all domestic firms and outsidership to all foreign firms. We acknowledge that far from all EMNEs experience an advantage of insidership in their home market. We assert that every local firm in emerging markets has an advantage over foreign firms in terms of language, culture, business practices, and non-exposure to foreign exchange risks, but not necessarily with regards to non-discriminatory treatment by national authorities. Hence, some indigenous firms may, in fact, experience a liability of outsidership (Johanson & Vahlne, 2009) when it comes to the exploitation of strategic assets in their home countries.

On this background the paper proceeds as follows: In the next section (section 2), we define strategic asset seeking in the emerging-market context. We then discuss how asymmetries in liabilities of foreignness between MNEs and EMNEs with large home-country markets may constitute a necessary and sufficient precondition for the applicability of the springboard perspective (section 3). In section 4, we expand the springboard perspective’s applicability to EMNEs from small home countries but larger home regions. In the next section (5), we discuss the implications of using the LOO concept rather than the LOF concept for the springboard perspective. The discussion includes an analysis of probable insider EMNEs, especially SOEs and firms affiliated business groups. In the concluding section (section 6), we suggest several avenues for future research, and highlight some limitations of our study.

**Defining strategic assets**

The springboard perspective aims to explain EMNEs’ acquisitions of strategic assets in developed markets. However, what does the term “strategic assets” include? Our answer to this question originates from Dunning’s suggestion that motives for foreign direct investment (FDI) fall into several categories: market, resource, efficiency, and strategic asset seeking (Dunning, 1993; Dunning & Lundan, 2008). In this categorization, the strategic-asset motive pertains to FDI that intends to add assets to the acquiring firms’ existing portfolios that “they perceive will either sustain or strengthen their overall competitive position, or weaken that of their competitors” (Dunning, 1993 p. 60). In a similar vein, Makino, Lau and Yeh (2002), and Wesson (1993) distinguish between asset-exploiting and asset-augmenting FDI, where the latter emphasizes the needs of firms, particularly firms from emerging markets, to gain access to new technologies and organizational capabilities. In terms of overseas R&D investments, Dunning and Narula (1996) develop dichotomies of asset-exploiting and asset-seeking investments. In addition, Kuemmerle (1999) contrasts home-base-exploiting with home-base-augmenting R&D activities, and points out the growing significance of augmenting existing assets by absorbing and acquiring technological spillovers arising from agglomerative effects in specific sectors, specific companies, or others in the host countries.

In line with Dunning’s (1993) definition of strategic asset seeking as including assets acquired with the purpose of weakening the competitive position of other incumbent firms, we submit that assets acquired for future use (such as R&D subsidiaries) *and* assets acquired or leased[[5]](#footnote-5) for use in other foreign markets or in the home market should be labeled “strategic”. One example would be the undertaking of FDI in a competitor’s home market in order retaliate against or prevent that competitor’s entry into the MNC’s own, lucrative home market (Graham, 1974, 1978; Knickerbocker, 1973). Other examples of strategic asset seeking of particular relevance to the springboard perspective are the acquisition (or leasing/licensing) of technologies or brands in foreign markets for use in the home market and the strengthening of a consumer brand through the opening of outlets in prestigious locations, such as Milan, New York, or Paris.[[6]](#footnote-6)

In contrast to the exploratory and augmenting nature of strategic asset seeking, the three other FDI motives – market seeking, resource seeking, and efficiency seeking – pertain to foreign assets acquired with the aim of immediate, on-location exploitation. A sales subsidiary FDI is motivated by market seeking and it executes immediate, on-site exploitation of an ownership advantage. Resource seeking occurs when, for example, an MNC acquires an iron mine concession. Such assets may or may not yield an ownership advantage (depending on the circumstances under which the concession is acquired), but they are subject to immediate exploitation.[[7]](#footnote-7) Assets acquired in conjunction with efficiency-seeking FDI may pertain to firm- and country-specific advantages (e.g., operational flexibility and low labor costs, respectively). Nevertheless, regardless of which of the two advantages are exploited, the asset’s payoff is on site and immediate rather than off site (in another country) and in the future.

In light of this discussion, we define “foreign strategic assets” as know-how, technologies, brands, equipment, buildings, and sites acquired or leased abroad with the aim of creating or extending advantages in the future, or in businesses and territories other than where the assets are currently employed and exploited.

Based on this definition of strategic assets we can proceed to a discussion of the EMNE categories to which the springboard perspective applies.

**Expanding the applicability of the springboard perspective (1): Liability of foreignness asymmetries between MNEs and EMNEs**

The liability of foreignness (LOF) concept is usually attributed to Zaheer (1995), but goes back to Hymer’s (1960, 1976) thesis on the disadvantages encountered by firms operating in foreign markets. Hymer identified four types of disadvantages faced by foreign firms: (1) foreign-exchange risks; (2) home government restrictions on internationalization; (3) information disadvantages regarding how to do business in a foreign country; and (4) discriminatory treatment by local governments. In our emerging-market context, we focus primarily on the two latter types of disadvantages. In this regard, we align our investigation with Zaheer (1995, 2002), who focused on the structural, relational, and institutional costs of doing business abroad. Zaheer defined structural/relational costs as:

… the costs associated with a foreign firm’s *network position in the host country* and its *linkages to important local actors*, which are both likely to be less developed relative to those of the local firm, resulting in *poorer access* to local information and resources. (2002, p. 351-352)

Hence, Zaheer (2002) focused on institutional distance, rather than cultural distance. As emerging markets are characterized by an institutional void, one might speculate that the institutional distance perceived by EMNEs and MNEs is asymmetric rather than symmetric, meaning that the perceived distance depends on the direction. More specifically, MNEs are in general perceiving a greater institutional distance to emerging markets than EMNEs to developed markets. Shenkar (2001) highlighted the existence of such asymmetries, albeit in the context of cultural distance:

Cultural distance symmetry is … difficult to defend in the context of FDI. It suggests an identical role for the home and host cultures, for instance, that a Dutch firm investing in China is faced with the same cultural distance as a Chinese firm investing in the Netherlands. There is no support for such an assumption. (2001, p. 523)

O’Grady and Lane (1996) noted that the “psychic distance paradox” applied for Canadian firms entering the US market but not for US firms entering the Canadian market. Similarly, in their large-scale empirical study of psychic distance, Håkanson and Ambos (2010) found asymmetries not only between US managers and their peers in smaller countries, but also for nearly all small-large neighboring country pairs in their sample. Their results speak convincingly against the treatment of cultural and psychic distance as symmetric - the assumption that such distances are perceived as the same regardless of direction is faulty.

There seems to be a growing chorus about the existence of LOF asymmetries, particularly with regard to cultural and psychic distances. However, empirical confirmation of the existence of LOF asymmetries does not necessarily allow us to infer a systematic, one-directional LOF asymmetry between MNEs and EMNEs. Nonetheless, several studies suggest that this is, in fact, the case. As pointed out by Vahlne and Wiedersheim-Paul (1973) and Ghemawat (2001), well-developed economies have better-developed infrastructures for the collection, analysis, and dissemination of economic data and market information. Furthermore, managers’ distance perceptions are influenced by their views and understandings of the political and institutional environments in foreign markets (Henisz & Zelner, 2005; Kostova & Zaheer, 1999). As expressed by Håkanson and Ambos:

Differences in these [political and institutional] conditions are likely to be especially important when managers from a country with an efficient regulatory environment and transparent governance structure are confronted with poorly developed political and institutional institutions where mores may be governed by informal rules and conventions that may appear strange, inefficient or even corrupt or otherwise immoral. Conversely, however, managers from countries with weak institutional structures may not experience the same difficulties in countries with more developed ones, where individuals’ behavior and that of organizations tend to be more transparent and therefore easier to understand and relate to. (2010, p. 199)

Håkanson and Ambos (2010) hypothesized that absolute differences in governance systems and the direction of those differences influence psychic distance perceptions of MNC managers. Hence, managers from countries with stronger institutional structures tend to perceive countries with poorly developed regulatory institutions as less transparent and more difficult to understand. Khanna, Palepu, and Sinha (2005) ascribed the failure of US firms to succeed in emerging markets to their inability to handle institutional void in these markets. The managers of MNEs don’t know the ‘rules of the game’ (North, 1990). Håkanson and Ambos’ (2010) findings supplement earlier arguments in the literature that focus on the role of absolute institutional distances regardless of their qualitative direction (Kostova, 1997; Meyer, Estrin, Bhaumik, & Peng, 2009; Xu & Shenkar, 2002).

Royal Dutch Shell’s FDI in Russia serves to exemplify the political and institutional hazards an MNE may experience in an emerging market:

Royal Dutch Shell in Russia was forced to give up majority ownership of its Sakhalin LNG project to a Russian state-owned enterprise, Gazprom, at less than cost, in part because Shell on entry divided Sakhalin ownership between itself (with a majority position) and two Japanese firms, as permitted by the prevailing laws in 1995. This foreign majority and complete ownership was in contrast to the presence of Russian partners in every other large oil and gas project in Russia that were later implemented. This ownership problem was compounded by the increasing power of the Putin administration and growing doubts about Shell’s legitimacy in Russia’s oil and gas sector. However, Shell did not change its ownership over the next 10 years, until forced to cede majority ownership to Gazprom in 2006. As an MNE in Russia, without the benefit of local partner advice and insight, Shell may have been unaware of the growing opposition to foreign majority ownership in the oil and gas sector in Russia. Shell’s LOF in Russia was definitely higher than other EMNEs. (Gaur, Kumar, & Sarathy, 2011, p. 215)

Earlier, we asked why EMNEs might be better positioned than firms from developed markets to exploit assets acquired in developed markets. We asserted that the two conventional explanations of cheap capital (Child & Rodrigues, 2005; Williamson, 2009; Williamson & Zeng, 2009) and global consolidators (Ramamurti, 2012; Ramamurti & Singh, 2009) limited the applicability of the springboard perspective. However, the perspective’s applicability increases considerably with the supposition that, *ceteris paribus,* LOF in general is higher for MNEs entering emerging markets than for EMNEs entering developed markets. Ample evidence in the literature seems to support this suggestion, as developed markets with their economic institutions of capitalism are more transparent, predictive, and less reliant on existing social and ethnic networks than emerging markets (Ghemawat, 2001; Håkanson & Ambos, 2010; Henisz & Zelner, 2005; Kostova, 1997; Kostova & Zaheer, 1999; Meyer, Estrin, Bhaumik, & Peng, 2009; Peng, Wang, & Jiang, 2008; Xu & Shenkar, 2002). Accordingly, developed markets are, in general, more accessible than emerging markets to entrant firms.[[8]](#footnote-8)

Our supposition that LOF is asymmetrical between MNEs and EMNEs leads to an important deduction. In line with Luo and Tung (2007), Madhok and Keyhani (2012), and Mathews (2002), but somewhat counter to Ramamurti’s (2012) argumentation and the general premises of Dunning’s OLI model (1980), possession of ownership advantages (together with L and I advantages) as a precondition for FDI does not apply for EMNEs’ engagement in springboard internationalization (i.e., FDI motivated by strategic asset seeking for use in home markets). *It suffices that EMNEs experience lower LOFs than MNEs.* Hence, the assumption of asymmetrical LOFs between EMNEs and MNEs is an adequate explanation of the springboard perspective. In fact, it extends the springboard perspective to apply to allstrategic asset seeking EMNEs with large home markets. Hence, the key to understanding the springboard perspective is not (only) the global consolidator phenomenon, or EMNEs’ access to cheap capital and politically-motivated FDI, but high LOF faced by MNEs entering emerging markets relative to EMNEs entering developed markets.

The assumption of LOF asymmetry provides us with a relatively simple answer to our research question*.* The answer to this question can be summarized in two inequalities for two-market models (1) and (2). The first inequality is formulated for a model consisting of a developed market plus an emerging market**:**

1. SADM: LOFMNE (DM) < LOFEMNE (EM),

where SADM = strategic asset acquired or leased by an EMNE in a developed market (DM); LOF = liability of foreignness, which is defined as the difference between the value π of a strategic asset to a local versus a foreign/entrant firm; EM = emerging market. We assume that π(SADM) – LOFEMNE (DM) ≥ 0, and that LOFMNE (DM) = LOFEMNE (EM) = 0.

The first of these two assumptions implies that the value of the acquired asset as used in the developed market should not be negative, as a negative value may – in the worst case – completely offset the profit earned in the emerging market. The second assumption simply states that MNEs and EMNEs do not experience any liabilities in developed and emerging markets, respectively. We moderate this assumption in section 5.

The second inequality is formulated for a two-market model, which includes a developed market plus an EMNE’s large home market (e.g., Brazil)**:**

1. SADM: LOFEMNE (DM) < LOFMNE (EMHOME),

where EMHOME = the home market of an EMNE. Similar assumptions apply: π(SADM) – LOFEMNE (DM) ≥ 0, and LOFMNE (DM) = LOFEMNE (EMHOME) = 0.

Based on the arguments made in this section, we can formulate the following proposition:

Proposition 1: Due to prevailing LOF asymmetries between developed and emerging markets, strategic assets currently employed in developed markets are more valuable to EMNEs than to MNEs to the extent that the assets are exploitable in large home countries, e.g., the BRIC countries (Brazil, Russia, India, and China).

**Expanding the applicability of the springboard perspective (2):
Home country or Home region?**

In the introduction, we quoted Ramamurti’s formulation of the springboard perspective saying that EMNEs go abroad to obtain technologies and brands primarily for exploitation in their home markets, not abroad.

For firms from *large, high-growth markets, such as China, Brazil, or India*, this makes strategic sense. (Ramamurti, 2012:43; emphasis added)

Ramamurti (2012) limited the applicability of the springboard perspective to EMNEs from large, high-growth markets. In order to avoid complicating our discussion, we ignore the question of what is meant by “high-growth” markets and focus instead on the issue of whether Ramamurti’s geographical restriction of the springboard perspective is reasonable. We show that a large home *country* market is not necessarily conditional for – or an antecedent of – the applicability of the springboard perspective.

Cuervo-Cazurra and Genc (2008) found that emerging market multinationals were successful in other emerging markets where they could employ their home-grown ability to manage institutional void. Lall (1983) found that EMNEs outperformed MNEs when they entered emerging markets other than their own home markets. According to Lall (1983), the competitive advantage held by EMNEs originates from lower-cost inputs, affiliations with business groups, ethnic connections in the host country, and the possession of technology and management that are adapted to host-country conditions. Lall’s (1983) findings have since been echoed by Erdener and Shapiro (2005), Khanna and Palepu (2006), and Thomas, Eden and Hitt (2002). These studies suggest that the springboard perspective makes sense *not only* for EMNEs with large home-country markets, such as Brazil, China, and India, but also for firms from smaller emerging markets, such as Vietnam and Uruguay to the extent that these firms view an emerging-market *region* (e.g., ASEAN and Mercosur, respectively) rather than an emerging market *country* as their home market.

Given this background, we reformulate the research question slightly to the following: *Under which conditions does it pay for EMNEs* ***with a small home-country market*** *to acquire or lease a strategic asset in a developed market?* The answer to this question can be summarized by the following inequality, which is based on a two-market model that includes a developed market and an EMNE’s home region. The home region, e.g., ASEAN, includes the emerging firm’s (small) home-country market, e.g., Vietnam:

(3) SADM: LOFEMNE (DM) < LOFMNE (EMHOME-REG),

where EMHOME-REG = home region of an EMNE. Similar assumptions apply: π(SADM) – LOFEMNE (DM) ≥ 0, and that LOFMNE (DM) = LOFEMNE (EMHOME-REG) = 0.

Based on the arguments made in this section, we formulate the following proposition, which is an extension of Proposition 1:

Proposition 2: Due to prevailing LOF asymmetries between developed and emerging markets, strategic assets currently employed in developed markets are more valuable to EMNEs than to MNEs to the extent that the assets are exploitable in large home countries *or regions*.

**the applicability of the springboard perspective:
replacing liability of foreignness with liability of outsidership**

Our use of the LOF concept rests on the assumption that all EMNEs possess an advantage over MNEs with regards to the exploitation of acquired foreign assets in their home market or home region. In other words, we have thus far assumed that all EMNEs enjoy an advantage of *insidership* in their home market (i.e., LOFEMNE (EM) = 0) and that all MNEs experience a disadvantage of *outsidership* in emerging markets.

This section is devoted to a discourse on whether this assumption holds true in reality. In other words, we attempt to investigate whether ascribing insidership to all domestic firms and outsidership to all foreign firms reflects an oversimplification. In this discourse, we maintain the latter assumption, namely that all MNEs experience a liability of outsidership (Johanson & Vahlne, 2009)[[9]](#footnote-9) in emerging markets, although we make a few comments on the realism of this assumption in the conclusion. However, we suggest not all EMNEs experience an advantage of insidership in their home markets. We assert that local firms in emerging markets hold an advantage over foreign firms in terms of language, culture, business practice, and non-exposure to foreign-exchange risks, but not necessarily in terms of non-discriminatory treatment by national authorities. Hence, local firms may experience direct or indirect discrimination from the authorities when it comes to the exploitation of strategic assets acquired in developed markets.

As one of the main characteristics of emerging markets is the state’s prominent role in the local business environment (e.g., Henisz & Zelner, 2005; Kostova, 1997; Kostova & Zaheer, 1999), direct or indirect discrimination by the state is critical (van Tulder, 2010). Governments in emerging markets often provide overt and covert support to domestic firms in their internationalization operations (Gaur *et al*., 2011; Luo, Xue, & Han, 2010; Ren & Zheng, 2012; *The Economist,* 2010), but the role of government is more salient in the home market. In particular, we highlight the notion of homegrown (Bhattacharya & Michael, 2008) or national (OECD, 2009) champions as companies in emerging markets that are especially favored by the federal or local government. Governments can select such local firms with the intention of nurturing them as leaders in certain industries believed to be of strategic importance to the country. As such, national champions are intended to bolster the country against otherwise dominant multinational enterprises from developed markets.[[10]](#footnote-10)

We further assert that the “national champion” qualification is not reserved for SOEs, as any company with strong links to the “political elite” may be eligible for this status. Hence, an EMNE affiliated a business group (BG) may qualify as a national champion. BGs are defined as “firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action” (Khanna & Rivkin, 2001:47-48). As one characteristic of a business group is its “insidership”, which is established through close connections to the political system (Granovetter, 1994; Guillén, 2000) (e.g., donations to political parties and partial state ownership), companies organized in these business groups may qualify as national champions.

In some emerging markets, business groups constitute a dominant feature of the private sector (Carney, Gedajlovic, Heugens, van Essen, & van Oosterhout, 2011; Kumar, Gaur, & Pattnaik, 2012; Xavier, Camilo, Bandeira-de-Mello, & Marcon, 2014). In China, business groups have grown from being non-existent three decades ago to a point where the revenues of the largest 500 business groups contribute about two-thirds of the country’s industrial output (Yiu, 2010). The Chinese government has selected the largest 100 business groups as “trial business groups” for internationalization. These business groups are collectively referred to as “national teams” (Nolan, 2001; Sutherland, 2009) and they are directly overseen and nurtured by the State Council. They receive special treatment in the internationalization process, such as smooth processing of their outward FDI project applications, access to foreign currencies (low-interest funding from state-owned banks), direct and indirect subsidies, and domestic tax breaks. As a result of this preferential treatment, business groups dominate China’s outward FDI, making up 75% of the total. In 2008, 36 of the 40 largest Chinese MNCs (in terms of FDI assets) were affiliated business groups (Yiu, 2010).

The observation that distinguishable groups of local firms in emerging markets enjoy preferential treatment by the state questions the relevance of differentiating only between local and foreign firms as suggested by the liability of foreignness concept. We therefore suggest that foreign firms should fall into the same category as those local firms that do not benefit from privileged treatment by the government and thus experience a liability of outsidership. Hence, we re-formulate our research question as the following: *Under which conditions can an “insider” EMNE benefit from acquiring or leasing a strategic asset in a developed market?*

The answer to this question is that an insider EMNE will benefit from acquiring or leasing strategic assets in western markets when the following inequality is fulfilled:

1. SADM: LOOEMNE-INSIDER (DM) < LOOMNE (EM),

where SADM = the strategic asset acquired or leased by an “insider” EMNE (EMNEINSIDER) in a developed market (DM), LOO = liability of outsidership, which is defined as the difference between the value π of the strategic asset to an “insider” versus an “outsider” EMNE (EMNEOUTSIDER). We make the following assumptions:

π(SADM) – LOOEMNE-INSIDER (DM) ≥ 0

LOOMNE (DM) = LOOEMNE-INSIDER (EM) = 0,

LOOEMNE-OUTSIDER (EM) > 0, and

SADM: LOOEMNE-OUTSIDER (DM + EM) ≥ LOOMNE (DM + EM).

The last assumption states that EMNEs which are outsiders in their home markets will incur the same (or higher) liability of outsidership as MNEs in developed and emerging markets alike.

Based on the above arguments, we can formulate three new propositions. However, these three propositions differ from the boundary conditions of the two previous propositions because of the inclusion of LOO assumptions. Proposition 3 concerns the distinction between “insider” and “outsider” EMNEs, and proposes that strategic asset seeking in developed markets is economical for the former but not the latter:

Proposition 3: Strategic assets currently employed in developed markets are more valuable to EMNEs that are “insiders” – not to EMNEs that experience a liability of outsidership in their home markets and therefore are unable to fully exploit the acquired or leased assets at home.

Proposition 4 revolves around the definition of “insider” EMNEs and proposes that “insiders” consist of SOEs and BG-affiliated firms. As indicated above, many BG-affiliated firms are also SOEs and sometimes BGs are exclusively composed of SOEs:

Proposition 4: EMNEs that are state-owned or included in a business group are “insiders”, i.e., they do not experience a liability of outsidership in their home market*.*

The fifth and final proposition highlights an important exception to the general contention that only insider EMNEs can acquire strategic assets in an economical way. This exception refers to “global consolidators” from emerging markets. Although these MNEs originate from emerging markets, they stand out as economically independent from those markets. They exploit acquired strategic assets on a global scale and not (only) in the home market:

Proposition 5: Strategic assets currently employed in developed markets may be more valuable for EMNEs that are “global consolidators” - even if they are “outsiders” in their home market in that they are neither state-owned nor included in a business group.

As shown in Figure 1, four applications, or boundary assumptions (Andersen, 1993), of the springboard perspective emerge. As the boundary assumptions set the limits for the application of the springboard perspective, they point out under which circumstances (for instance, home-market size and LOF asymmetries) the perspective should be used as an explanation of the phenomenon of EMNEs’ acquisitions or leasing of strategic assets in western markets.

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Insert Figure 1 about here

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Figure 1A depicts the baseline application of the springboard perspective, which is limited to EMNEs that are either state-owned or global consolidators (indicated by the white area in the figure). Figure 1B and 1C represent two significant expansions of the perspective (grounded on the LOF asymmetry logic). These two presentations encompass all EMNEs from the BRIC countries (Figure 1B) and all EMNEs – not only those from the BRIC countries (Figure 1C). In Figure 1D, the boundary assumptions of the springboard perspective retrench to only comprise “insider” EMNEs (defined as enterprises that are state-owned and/or affiliated with business groups) and global-consolidator EMNEs.

**Conclusions and avenues for further research**

In this paper, we have analyzed the applicability of the springboard perspective (Luo & Tung, 2007; Ramamurti, 2012) as an explanation for EMNEs’ search for strategic assets in developed markets. Our analysis revolved around two concepts: liability of foreignness (LOF) and liability of outsidership (LOO). We used the LOF concept to infer a considerable expansion of the springboard perspective from applying only to SOEs and global consolidators from large emerging markets to applying to all EMNEs. We argued that the LOF an EMNE experiences in a developed market is low relative to the LOF an MNE experiences in an emerging market. This LOF asymmetry supposition suffices as a potent lever of the scope and relevance of the springboard perspective.

However, the use of the LOO concept, instead of the LOF concept, led us to considerably *narrow* the scope of the springboard perspective in our discourse discussion. We argued that EMNEs that are subject to “outsidership” in their home market are unable to fully exploit the strategic assets they may acquire in western markets. The inverse formulation is that the springboard perspective is relevant only to EMNEs that enjoy “insidership” in their home countries or regions, i.e., SOEs or EMNEs affiliated with business groups that have strong ties to the government and other important actors (e.g., local authorities and trade unions) in the emerging market. A germane research avenue – and a huge empirical challenge – is establishing which business groups accommodate insidership.

Irrespective of whether the LOF or the LOO is the better concept to use in ascertaining the boundary assumptions of the springboard perspective, one temporal element of the springboard perspective’s basic premise remains important – EMNEs’ weak or absent ownership advantages in developed markets. With the rapid development of knowledge-creating institutions in emerging economies, it seems only a matter of time before the insignificance or absence of EMNE ownership advantages in developed markets is a phenomenon of the past. In other words, the applicability of the springboard perspective may be limited in time.

We acknowledge several limitations of our study. Our analysis is limited in terms of nuanced information as to how MNEs may overcome LOFs and LOOs. Luo (2007), for example, highlights successful veteran MNEs in China that have shifted from an early status of “foreign investor” to a new status of “strategic insider” by redefining their strategies and structures to meet internal demands and, thereby, achieve localized value-chain integration.[[11]](#footnote-11) In a recent empirical study, Gammelgaard, McDonald, Stephan, Tüselman, and Dörrenbächer (2012) analyzed the ways in which MNE subsidiaries reduce their liability of outsidership. They found a correlation between performance and strong, local network positions of subsidiaries. Relatedly, we have not discussed MNEs’ possibilities to ally with emerging-market firms in order to achieve insidership in emerging markets. Instead, we have assumed that MNEs exploit their assets singlehandedly or sell (or license out) those assets to emerging-market firms for commercialization in emerging markets. Hence, we have not considered the fact that MNEs can form equity joint ventures with EMNEs even though most emerging-market governments now allow for the formation of wholly-owned foreign subsidiaries in their countries. It is also important to note that SOEs in emerging markets are often MNEs’ preferred joint-venture partners (Meyer *et al*, 2009; Yiu, 2010) – allegedly because an alliance with an SOE is a shortcut to insidership and legitimacy in such markets.

Finally, we have not discussed whether the springboard perspective applies only to EMNEs. In other words, we have not addressed whether the springboard perspective can explain the internationalization of (some) MNEs. As argued in this paper, developed markets are generally more open to entrant firms (including EMNEs) and thus cannot be portrayed as the protected backyards of MNEs. However, the inward internationalization of MNEs, including the surge in MNEs’ offshoring of labor-intensive processes to emerging economies, has some resemblances to the springboard perspective. The extent to which this offshoring includes the seeking of strategic assets primarily for use in developed markets is a question worthy of study.

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**Figure 1: *Applicability of the springboard perspective***


Figure 1A: Applicability for global consolidators and EMNEs with access to low-cost capital



Figure 1B: Applicability for all EMNEs from large countries (BRICs)



Figure 1C: Applicability for all EMNEs (including those from small countries)



Figure 1D: Applicability for insider EMNEs (i.e., state-owned and BG-affiliated) and global consolidators

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[www.cbs.dk/staff/bp.smg](http://www.cbs.dk/staff/bp.smg) [↑](#footnote-ref-1)
2. In the following, the term “ownership advantage” is used interchangeably with “firm-specific advantage”. [↑](#footnote-ref-2)
3. The idea that EMNEs can be industry leaders through sufficiently large acquisitions is developed further by Cantwell and Mudambi (2011).
 [↑](#footnote-ref-3)
4. In a revision of their classic Uppsala internationalization process model, Johanson and Vahlne (2009) featured the “liability of outsidership” concept. The authors contend that insidership in relevant network(s) is necessary for successful internationalization. Hence, if a firm attempts to enter a foreign market in which it has no relevant network position, it will suffer from a liability of outsidership. [↑](#footnote-ref-4)
5. Dunning’s (1993) FDI motives concern only assets *owned* by the MNE. However, by obtaining user rights, e.g., a license to a certain technology, entrant firms may control assets without owning them. We therefore include the leasing of strategic assets as an alternative to the acquisition of such assets. [↑](#footnote-ref-5)
6. *Natura*, the largest producer of cosmetics and market leader in Brazil, serves as an illustration of the latter. In 2005, *Natura* opened a flagship shop in Paris. Although this move might sound ordinary in the context of increasing globalization and internationalization among emerging-market firms, two factors seem of particular relevance. First, flagship shops are not *Natura*’s major sales channel or expertise. Since the company began internationalizing in the 1970s, it has mainly operated through direct-sales channels. Second, although the company has consistently invested in foreign operations in the last decade (which accounted for 12.3% of its revenues in 2012; EXAME, 2013), such investments were mainly targeted at countries in Latin America. To date, France is the only country outside Latin America in which the company owns sales facilities. [↑](#footnote-ref-6)
7. The much vaunted Chinese FDI in natural resource extraction in Africa may constitute strategic assets from a state or government perspective, but less so from the perspective of the individual Chinese MNCs (unless, of course, they are SOEs). [↑](#footnote-ref-7)
8. To complete the picture, we should add another argument for this asymmetry, which is made by Ramamurti (2012, p. 43), who states that “the LOF problem is more severe in the case of market-seeking internationalization … than it is for resource-seeking internationalization”. In other words, when EMNEs engage in strategic asset or resource seeking in developed markets, they are generally less exposed to LOF than MNEs are when undertaking market-seeking FDI in emerging markets – apparently even without assuming differences between developed and emerging markets in terms of their institutional and political environments. [↑](#footnote-ref-8)
9. Johanson and Vahlne (2009) contend that outsidership, rather than psychic distance, is the root of uncertainty in foreign operations. An important distinction between the concepts of liability of foreignness and liability of outsidership is that the latter considers networks rather than countries as the major focal point for analysis of internationalization. It suggests that “firms’ problems and opportunities in international business are becoming less a matter of country-specificity and more one of relationship-specificity and network-specificity” (Johanson & Vahlne, 2009, p. 1426). Nevertheless, Johanson and Vahlne (2009) recognize an important relationship between these concepts and suggest that the liability of foreignness complicates the process of becoming an insider within a country or region relevant network. This view leads Johanson and Vahlne to recognize the need for research that may explain when the liability of foreignness or the liability of outsidership is the primary difficulty in foreign-market entries - see, e.g., Gammelgaard, McDonald, Stephan, Tüselmann and Dörrenbächer (2012) for a discussion of the relationship between the concepts of “liability of foreignness” and “liability of outsidership”. [↑](#footnote-ref-9)
10. Consider China’s Lenovo as an example. Despite its impressive globalization, Lenovo is still considered to be a “national champion”, as it is heavily reliant on profits from the domestic Chinese market to finance its overseas expansion (Deng, 2012; *The Economist*, 2013,p. 52). [↑](#footnote-ref-10)
11. It cannot be assumed that an MNE’s attainment of insidership is contingent on the time spent and experience gained in the local market. Hence, the “obsolescing bargain model” (Vernon, 1971) predicts that an MNE’s bargaining power vis-à-vis the local government is strong at the time of its entry into the foreign market. As such, the MNE initially enjoys an insider position. However, this position is likely to obsolesce as the government’s perception of benefits and costs change over time (and as other MNEs enter the market). In the worst case, this trend may eventually ascribe the first-mover MNE an outsider rather than an insider position (Eden & Molot, 2002). [↑](#footnote-ref-11)