Brownfield Acquisitions:

A Reconceptualization and Extension

Saul Estrin

London School of Economics

s.estrin@lse.ac.uk

Klaus E. Meyer

University of Bath

k.meyer@bath.ac.uk, www.klausmeyer.co.uk

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Abstract

- Firms seeking specific complementary resources to pursue their growth strategy in emerging markets may use 'brownfield' acquisitions to provide access to resources that are embedded in existing firms. This strategy requires a fundamental restructuring of the acquired firm to replace many of its resources and organizational structures.
- In this paper, we review the concept of brownfield acquisition, establish its empirical relevance outside of transition economies, explore its theoretical and empirical antecedents, and discuss its implications for theorizing in international business.

Key Results

- Our empirical results based on a six-country survey in emerging markets show that brownfield acquisitions are most likely for projects that are more integrated with the parent's global operations, and where local firms are weak and institutions are strong.
- The concept provides a focal point for research on the resource-based view by illuminating the process of resource combination in firm growth. It also provides an example of where different aspects of the institutional framework may have contrary effects on various elements of business strategy.

Key Words

Brownfield Acquisitions, Foreign Entry Strategy, Post-Acquisition Restructuring, Institutional View, Emerging Economies

Introduction

Acquisitions are stepping stones of corporate strategies that provide access to complementary resources, thus permitting firms to reshape their scope to accelerate growth. These strategic objectives however require not only a legal transaction but an organizational process that creates synergies between the acquirer and the acquired firm (Hitt/Harrison/Ireland 2001, Zollo/Singh 2004). This process of organizational integration requires organizational change in the acquired firm (Jemison/Sitkin 1986, Haspeslagh/Jemison 1991), often in combination with redeployment and divestment of resources (Capron/Mitchell 1998, Capron/Mitchell/Swaminathan 2001) and organizational restructuring at the corporate level (Barkema/Schijven 2008). This restructuring is in some cases so extensive that the acquired firm is hardly recognizable after the restructuring.

Such acquisitions with extensive restructuring have been distinguished by Meyer and Estrin (2001) as 'brownfield'.[1] They describe the phenomenon for foreign investors in Central and Eastern Europe (CEE) in the early 1990s, and explain it by the specific conditions prevailing during the early stage of transition from a central plan regime to a market economy, notably the availability of "cheap" assets available through acquisition in the privatization process, that however were embedded with organizations designed to operate in a central plan regime rather than a competitive market economy. Yet, recent evidence suggests that the phenomenon may be common in a range of other emerging economies such as Egypt and Vietnam (El Shinnawy/Handoussa 2004, Nguyen/Meyer 2004), and also for outward investment from an emerging economy, namely Taiwan (Cheng 2006). However, this evidence remains sketchy because data have not been collected systematically. Several questions thus arise with respect to the concept:

- How relevant is the concept beyond the specific conditions of early stages of economic transition in the 1990s?
- What contextual conditions in terms of institutions and potential acquisition targets induce investors to make a brownfield acquisition in preference to alternative entry modes?

[1] The concept of "brownfield" is also used in real estate management, with a slightly different meaning. This literature refers to construction projects as brownfield if they are built on a site that was previously used for residential or industrial purposes. For instance, in the context of inner city redevelopment, 'brownfield investment' typically refers to the construction of residential buildings after demolishing disused industrial buildings and decontaminating the site (Alker/Joy/Roberts/Smith 2000). To avoid confusion, we use the term 'brownfield acquisition', which is a minor extension of Meyer and Estrin (2001) who used simply 'brownfield'.

- What kinds of subsidiary strategies are most likely to be implemented by brownfield acquisitions?

Our analysis applies, integrates, and thus advances, two of the most prominent theories in international strategic management research, namely the resource based view (RBV) and the institutions based view (IBV). The RBV established a link between firms' resources and their competitive advantages (Barney 1991, Teece/Pisano/Shuen 1997). When it has been applied to foreign entry strategies, it focuses on the processes of exploration and exploitation of resources in the new operation (Anand/Delios 2002, Luo 2002). In a dynamic perspective, resources not only determine comparative advantages but shape the firm's path of growth (Penrose 1959, Capron/Mitchell/Swaminathan 2001, Kazanjian/Hess//Drazin 2006, Meyer 2006) and hence its preferred mode of foreign entry (Meyer/Wright/Pruthi 2009). Firms establishing foreign investment overseas therefore always combine resources of the firm with local resources. If the sought local resources are embedded in local firms, joint ventures or acquisitions may be the appropriate way to combine them with resources transferred by the parent firm (Hennart, 2009).

Brownfield acquisitions occur when the acquiring firm uses only a small proportion of the resources embedded in the acquired firm. This may arise, as in transition economies, because the mass privatization process lowered the price of acquisitions relative to Greenfield entry. Hence it was profitable to acquire firms with only very limited assets of value to the acquirer. More generally however, brownfield acquisitions will be attractive to investors seeking certain highly specific complementary resources that are not separable from the firms they acquire, a situation that is likely to occur for example in contexts where local firms posses specific, rare resources such as access to political elites or local brands but are weak in terms of managerial and technological competences. The RBV also suggests that brownfield acqusitions are more likely in situations where the acquired operation is required to play a more strategic role within the investor's global operations.

The decision to acquire a firm in a brownfield style is however moderated by the specific features of the local institutional context, which provides an opportunity to apply and advance the IBV (Oliver 1997, Peng 2003, Gelbuda/Meyer/Delios 2008, Peng/Zhang/Jiang 2008, Jackson/Deeg 2008). Emerging economies are subject to extensive 'institutional voids' that induce local and foreign-invested firms to develop specific strategies to bridge, overcome or bypass such voids (Khanna/Palepu 2000, 2010). However, different institutions may have differential impact on investors' mode preferences. On the one hand, institutions are likely to be a pivotal cause why local firms are perceived to be weak by foreign investors, while at the same time they might control some key resources valued by foreign investors (Meyer/Estrin/Bhaumik/Peng 2009). But the effects are not simple. We argue that some institutional obstacles create a need for a local partner and thus make brownfield acquisitions *more* likely. On the other hand, certain institutional obstacles affect specifically organizational change processes, for example restrictive labour law or corruption. Such obstacles would thus make brownfield acquisitions *less* likely. We show that these opposing effects can be separated empirically, thus advancing the IBV, which hitherto has rarely been able to disentangle the effects of different institutions on entry mode, (Bevan/Estrin/Meyer 2004). This aspect of our study challenges the tendency in management research to treat institutional development as a single, aggregate construct (Wan/Hoskisson 2003, Chan/Isobe/Makino 2008, Shinkle/Kriauciunas 2010).

This paper thus offers the following contributions. First, we advance research by identifying areas of relevance of the brownfield acquisition concept beyond the context of Meyer and Estrin's (2001) original study. We also clarify and operationalize it in an empirically measurable way. Second, we advance a dynamic resource based perspective on brownfield acquisitions as stepping stone of organizational growth that blends organic and acquisitive elements of corporate growth. Third, we advance IBV of business strategy by showing that advances of institutional development may have contrary effects on certain strategic decisions. Our study thus further extends recent theoretical work in international business that integrates resource-based and institutional perspectives (Filatotchev/Hoskisson/Uhlenbruck/Tihanyi/Wright 2003, Meyer/Estrin/Bhaumik/Peng 2009). Fourth, we offer empirical evidence based on a unique survey based data-set of 218 acquisitions in six emerging economies, in support of our arguments.

The next section provides evidence of the relevance of the concept by way of case studies. Section three advances our dynamic resource-based view to explore the motivations of why and when investors may choose brownfield rather than conventional acquisitions or greenfield investment. Section four presents a simple empirical study based on data collected in Egypt, Hungary, India, Poland, South Africa and Vietnam. Section five derives challenges from this study for RBV and IBV theorizing, and section six concludes and points to implications for management practice.

The Brownfield Acquisition Concept

Brownfield acquisitions proliferate

Meyer and Estrin (2001) develop the concept of brownfield based on field research in CEE in the early 1990s, notably the case studies by Estrin, Hughes and Todd (1997) and Meyer and Møller (1998). However, this context has been a very peculiar one due to the economic, political and social processes of the early stages economic transition from central plan to market economy, which impacted on the nature of business in the region at that time (Antal-Mokos 1998, Steensma/Tihanyi/Lyles/Dhanaraj 2005). In particular, the privatization process in many countries led to a major underpricing of assets, which biased corporate entry modes in favour of acquisition (Estrin *et al,* 2009). Meyer and Estrin (2001) speculate that this phenomenon might be relevant more generally in emerging markets, noting in particular assets associated with dealing with the weaknesses in institutional arrangements in emerging markets. However, they did not clearly define the critical balance of resources in the acquired and acquiring firm, nor the specific areas of weakness of institutions. Moreover, they did not intimate how the concept might be operationalised and tested. Thus, before proceeding with re-evaluating the concept, we need to establish that it is, indeed, not specific to that context.

A good illustration of brownfield acquisition is given in the case of Pollenia-Lechia in **Poland**, which was acquired German cosmetics MNE Beiersdorf in 1997 (Blaszejewski/ Dorow/Stüting 2003). This Polish ex-state owned company held the rights in Poland to the brand 'Nivea', which was Beiersdorf's primary brand worldwide. Yet, otherwise, Pollonia-Lechia held few resources of interest to the German firm. Beiersdorf failed to acquire the brand as such (nor did they succeed in their legal challenges to the Polish firms' claims). Hence, the only way to control the brand was to acquire the entire firm, and then to turn it upside down: The Beiersdorf management added a new, parallel organizational structure to market the Nivea brand along Western standards. The new departments for marketing, human resources and logistics recruited selected personnel from the old firm, but operated largely independent of the old structures. This set up allowed the restructuring to run smoothly: *"The double structure was kept in place until it became clear that the Nivea re-launch had been successful. Then the bubble of former Pollonia-Lechia was allowed to burst" (Blaszejewski et al. 2003).* A generous redundancy program was offered, which most employees in the old structure joined, leading to a quick dissolution of the now redundant operation. Three years later, Beiersdorf added a new state-of-the-art production facility to its operations in Poznan.

This and similar case-based research in Eastern Europe (Meyer/Lieb-Doczy 2003, Meyer/Estrin 2007) suggests the relevance of brownfield acquisitions beyond the specific time frame of the studies by Estrin, Hughes and Todd (1997) and by Meyer and Møller (1998). Other studies identify brownfield acquisitions in very different institutional contexts.

For example, in **Egypt**, the ECMS consortium acquired the mobile phone operations from the state operator along with the operating license. Within months, the new owners restructured the organization to lay the foundation for rapid growth, building a new workforce with only selected members of staff and upgrading the infrastructure to the next generation of technology and designed for providing service on a much grander scale – moving from 83,000 to 2 billion customers in three years. The CEO likened the initial restructuring laying the basis for this spectacular growth as 'changing the engine of an airplane while it was flying' (El Shinnawy/Handoussa 2004: 93).

In **Vietnam**, a 'brownfield' acquisition took a different legal form as acquisitions of local enterprises were until not feasible. Hence, ABB formed a joint ventures with a local partner to which the local partner then transferred all it existing operations. The joint venture "ABB Transformer" in Vietnam was then restructured to fit the need of the global ABB operation, including major technological upgrading and outsourcing of peripheral activities such as lunch time catering (Nguyen/Meyer 2004).

The phenomenon has also been observed more widely. Zeng and Williamson (2007) report a case of a Chinese firm, Wanxiang, that acquired its **US** competitor Schiller in 1998 for its brands, technology and customer-relationship. It separated these assets from the production facilities, which were sold to a third party, and fulfilled US orders from its Chinese lower-cost manufacturing sites (also see Hennart 2009). Moreover, Cheng (2006) studies outward FDI **from Taiwan** and found that 14% of respondents self-reported their subsidiary to be established as brownfield acquisition, compared to 34% as conventional acquisitions and 52% as greenfield project. Moreover, Cheng ran a multinomial regression to distinguish the determinants of greenfield, acquisition and brownfield and found that on most variables, determinants of brownfield are similar to those of acquisition (concentration ratio, relative size, cultural distance, acquisition experience), with the notable exception of R&D intensity, where it is closer to greenfield. Moreover, advertising expenses and training & remuneration for expats take an intermediate position that is significantly different from both acquisitions and greenfield. Thus, brownfield acquisitions appear to be used when many internal and external factors would normally suggest acquisition as a mode, yet the firm has a strong interest in transferring its original technologies and business practices (as would be the case in firms with high R&D, advertising or training expenditures).

This evidence shows that the combination of an acquisition, which is *per se* typically large and costly, with the investment of substantive resources in the post acquisition restructuring process makes brownfield acquisition a particularly high commitment entry mode. Yet, foreign investors appear willing to accept these costs under certain circumstances because they are eager to access some resources of the local firm – not only in transition economies.

A Dynamic Resource-based View

The complexity of the managerial challenges in a brownfield acquisition raises the question, *why do foreign investors pursue brownfield acquisitions, despite these costs?* Brownfield acquisitions are part of firms' resource reconfiguration processes (Capron/Mitchell/ Swaminathan 2001; Barkema/Schijven 2008), which suggests applying a Penrosian process of corporate growth. This builds on recent work exploring the dynamic aspects of Penrose's (1959) to explain how firms evolve over time (Rugman/Verbeke, 2002). Firms pursue growth by redeploying resources not fully utilized in current operation. Yet, the most effective utilization of resources may require acquisition of complementary resources, and/or the sale of resources to others who would be able to generate more value with them. Hence, acquisitions may best be understood as not singular events but as elements of a broader strategy of corporate growth.

We analyze acquisitions as elements in the processes of business reconfiguration. Even a small acquisition may play a key role in an organic growth strategy. Kazanjian, Hess and Drazin (2006) observe that successful organic growth strategies normally require a platform of key resources from which the firm then can grow by realizing the full potential of these resources, in particularly by integrating them. However, this platform for organic growth is commonly created

> "through acquisitions of other companies, typically small or medium-sized firms, specifically for their assets and capabilities, which complement the platform and therefore support further organic growth. This concept of a *platform for growth* has not been widely discussed in the growth literature." (Kazanjian/Hess/Drazin 2006: 12, italics added).

In an emerging economy context, this platform for example may consist of key nodes of a distribution network and local brands, essential for successful growth, yet only a small part of the operation to be created. Similarly, political connections of key staff may play a critical role in addressing institutional voids, yet represent a rather small and intangible aspect of the acquired firm's resources. Thus brownfield acquisition may provide such key nodes, that the investor then can combine with its global resources and competences. In other cases, corporate strategies involve multiple acquisitions that jointly transform the scope of the global firm (Barkema/Schijven 2008, Laamanen/Keil 2008) or building an operation in foreign markets (Meyer/Tran 2006).

MNEs aiming to reposition themselves in their markets or supply chain in response to external or internal changes often need to acquire complementary resources. In the case of subsidiaries abroad, these resources have in part been created and contributed by the parent firm. Yet, they need to be complemented by local resources such as brand names, technological capabilities, or political contacts. that are inseparable from the firm currently owning them. Foreign investors can acquire such local resources in several ways (Anand/Delios 2002, Hennart 2009, Meyer/Estrin/Bhaumik/Peng 2009). As greenfield investors, they may buy specific resources such as real estate and labour. As partners in a JV they obtain access to resources of a local partner, yet with the limitation that only resources volunteered by the partner are available, and control over the operation has to be shared. As acquirers they attain a bundle of resources that constitutes the foundation of the new operation, and which includes resources that are, from the perspective of the investor, in part valuable and in part redundant. For brownfield investors, this combination of valuable and redundant resources in the acquired local firm requires particularly complex integration and restructuring processes as well as the disposal of unwanted assets and, possibly, the lay-off of employees.

Since 'the market for businesses is often more robust than the market for resources' (Capron/Dussauge/Mitchell 1998), firms may acquire entire firms rather than specific assets. In consequence, the need to combine global and local resources to create a competitive subsidiary may lead firms expanding abroad to acquire local firms in markets they wish to enter. This approach however requires extensive redeployment and divestment of resources (Capron/Mitchell/Swaminathan 2001), which may be so extensive that it becomes a brownfield acquisition as described by Meyer and Estrin (2001).

Such a situation is most likely if the global strategy of the firm *simultaneously* relies on competences such as technologies and organizational practices that are embedded in the global organization, and in local competencies such as local brands and distribution networks, and reputation with local authorities (Cheng, 2006), or if the subsidiary critically contributes to operations of the MNE beyond its local context, notably if it is assigned a global mandate (Birkinshaw/Morrison 1995, Birkinshaw/Hood 1998).

In creating the envisaged operation, an acquisition may thus be followed by divestments of parts of the acquired operation, be they specific assets (say, real estate) or whole business units (Capron/Mitchell 1998; Capron/Mitchell/Swaminathan 2001). Dependent on the nature of the post acquisition process, we can thus classify brownfield acquisitions as a mix of acquisition and greenfield entry modes (Table 1). Using the RBV, brownfield acquisition implies resources the entrants seek would be highly embedded in local firms (for example because of idiosyncratic institutions, see below), while the bulk of the core productive resources (labour, capital, machinery) are of limited value to the investors. Brownfield acquisition is thus a costly way to grow a firm, but it enables overcoming specific resource constraints.

*** *Table 1 approximately here* ***

An Institutional Perspective

Institutions are widely recognized to be pivotal for explaining variations of business strategies in different countries (Oliver 1997, Oxley 1999, Peng/Wang/Jiang 2008), however it remains poorly understood which and in what ways institutions matter. The concept of institutions incorporates a wide array of both formal and informal institutions that establish the 'rules of the game' by which firms and individuals behave (North 1990, North 2005). Where such institutions are not well developed, businesses experience 'institutional voids' that challenge them to adapt their strategies (Khanna/Palepu 2000, 2010). In this study, we aim to disentangle the influence of these institutions by showing how particular aspects of the institutional framework can have opposing effects on business strategies.

The importance of institutions arises from their influence on the costs of doing business. They influence transaction costs and thus alter the relative costs of alternative forms of organizing (Williamson 1985, Casson 1997, Buckley/Casson 1998, Henisz 2000), and they shape the incentives for decision makers and thus agency costs (Eggertsson 1994, Ingram/Silverman 2002). They also influence the cost of organizational change (Newman 2001, Capron/Guillén 2009), a perhaps less recognized effect. If companies wish to lay-off employees, they have to do so under the rules regarding employment and labour in the country in which they operate. In some countries, employees can be laid off at virtually no costs. Yet in other countries, the costs of lay-off are increased by formal institutions like labour stipulating redundancy payments, or informal institutions such as moral pressures asserted by the media or trade unions (Hall/Soskice 2001, Aguilera/Jackson 2003). The high costs of lay-offs, that may be associated with restructuring, may induce companies to choose an alternative way of building a business. Specifically, they may choose to avoid acquiring businesses that would need substantial restructuring of the labour force (Meyer/Estrin/ Bhaumik/Peng 2009).

The literature on emerging economies has emphasized that the characteristics of institutional arrangements may make it necessary for investors to acquire local ‘institutional resources’, i.e. knowledge that is specific to operating in a particular local context (Henisz 2003, Peng 2003). This may include for example understanding how to deal with local or national bureaucracy concerning business regulations; learning how to operate local distribution networks; or becoming sensitive to critical aspects of local culture and tastes. Such knowledge is often tacit and can best be acquired by forming joint ventures or taking over local firms (Peng et al., 2008, Hennart 2009). This line of argument would suggest that acquisitions are more likely where institutions are ‘weak’. Yet, if the local firm is acquired primarily for its institutional resource, its operation may actually be inefficient and in need of substantial resource upgrading to fit into the acquirer’s organization, thus creating a brownfield acquisition. Moreover, Meyer and Estrin (2001) argue that brownfield acquisitions emerged specifically in CEE in the early 1990s because foreign investors used them as a means to overcome institutional barriers while accessing unique resources. Hence, brownfield acquisitions will be associated with ‘messy’ local institutional environments where foreign investors need local resources that enable them to deal with the idiosyncrasies of the local context.

Hence, the quality of various institutions have two opposing effects on the likelihood of acquisitions being turned into brownfield. With imperfect institutions, foreign investors are more likely to need local institutional knowledge, which motivates brownfield acquisitions. Yet, at the same time other institutional weaknesses make the post-acquisition restructuring process more costly, which deters brownfield acquisition. Our hypotheses dissect this apparent contradiction by separating out how different institutions are likely to affect different markets.

Hypothesis Development

The theoretical discussion leads to two sets of determinants. First, acquisitions are more likely to be brownfield type when the investor has a strategic need to implement radical change in the acquired organization. Thus, we explore the subsidiary strategy and derive hypotheses H1 to H3. Second, acquisitions are more likely to take the form of brownfield in local contexts where local firms are weak, where foreign investors need certain resources from local firms to operate, and where the institutional context makes a radical restructuring of acquired operations easier. Hence, we first explore the impact of the local context in terms of both institutions and resources to derive hypotheses H4a-d and H5.

Subsidiary Strategy

The choice of entry mode first and foremost depends on the objectives that an investor intends to achieve with the new subsidiary (Bower 2001, Anand/Delios 2002, Meyer/Wright/Pruthi 2009). Hence, the extent of restructuring and upgrading that foreign investors are likely to undertake in an acquired firm depends on the strategic roles of the subsidiary within the organization of the MNE. The strategic advantage of a brownfield operation is that it *simultaneously* employs competences such as technologies and organizational practices that are embedded in the global organization, local competencies such as local brands and distribution networks, and reputation with local authorities (Cheng 2006). Given the costs associated with a brownfield operation, i.e. the combination of costs of the acquisition and the costs of turning the acquired operation around, we would expect brownfield acquisitions to be used only when such a combination of resources from different organizations is essential to achieve the strategic goals of the organization.

Subsidiaries that are large relative to the size of the parent firm are also strategically more important. Their financial performance will make a greater contribution to the parent firm's performance, which in itself suggests a greater degree of control and a greater concern of the parent to upgrade the subsidiary to its technological and managerial standards (Kogut/Singh 1988, Harzing 2002). Moreover, the larger an acquired subsidiary, the greater the interface between the subsidiary and the remainder of the MNE is likely to be, hence greater attention needs to be paid to managing this interface. This in turn implies that the acquired subsidiary needs to implement more strategic change to facilitate the interaction between the old and new business units. Hence, we suggest as our first hypothesis:

Hypothesis 1: Acquisitions are more likely in the form of brownfield, the larger is the acquired operation relative to the parent's operation.

If a subsidiary is mainly aimed to serve the local market, and to help the foreign investor to channel its products and services to local customers, then it is likely that a local firm controls many of the required capabilities, and thus the restructuring may take the form of moderate upgrading. A local market oriented subsidiary would have to become more competitive than the competitors in its local market. This may require some upgrading, but less so than an upgrading aiming for the subsidiary to compete with the best in the world.

If, on the other hand, the objectives of a subsidiary are to serve markets outside the host country, or in fact to contribute products and services to the global supply chain of the MNE, then the investor will take a much firmer approach to ensure that the quality of the produce lives up to its standards, and that organizational processes fit in with its global operation. The operations thus would need to be upgraded to become competitive vis-à-vis the best in the world, and the organizational processes need to be reorganized for efficient interaction between the different business units. Hence we propose that:

Hypothesis 2: Acquisitions are more likely in the form of brownfield if the acquired subsidiary is export-oriented.

Operational integration is particular important to firms that pursue competitive advantages through business models that integrate operations across the world, for instance to take advantage of arbitrage opportunities, or from aggregation benefits (Ghemawat 2007). Competitive pressures in increasingly global but highly specialized markets induce firms to pursue strategies focused on a narrow product range with a global reach in both operations and marketing (Meyer 2006). Businesses that pursue growth by specializing in a single industry yet with a global scope are more likely to build their operation around such a global business model. They would engage often grow organically and use acquisitions only highly selectively, and thus not develop particular managerial competences in the deep restructuring of acquired businesses.

On the other hand, diversified conglomerates are more likely to have evolved through a history of acquisitive growth, and developed complex competences in managing the process of acquisition and the integration of an acquired new operation. These competences and the ability to diversify risk make it more likely that conglomerates will undertake brownfield acquisitions:

Hypothesis 3: Acquisitions are more likely in the form of brownfield if the parent firm is a diversified conglomerate.

Institutional Contexts for Brownfield Acquisitions

Institutional theory suggests that the efficiency of markets is a function of the formal and informal institutions governing these markets (Coase 1937, North 1990). In contexts where institutions are causing significant obstacles to market exchange, firms are likely to develop organizational structures and routines specifically adopted with these issues. This includes for example the creation of business groups that internalize inefficient markets for intermediate goods (Khanna/Palepu 2000, Khanna/Yafeh 2007, Estrin/Poukliakova/Shapiro 2009), but also the development of network-based modes of growth that reduce information asymmetries and other transaction cost in emerging and transition economies (Peng/Heath 1996, Peng 2003, Danis/Chiaburu/Lyles 2010). Such institutional obstacles are in particular associated with the lack of clearly defined property rights (Oxley 1999), corruption and the associated lack of transparency (Rodriguez/Uhlenbruck/Eden 2005, Cuervo-Cazurra 2006), and with barriers to the establishment of new firms (Estrin/Meyer/Bytchkova 2007, Aidis/Estrin/Mickiewicz, 2008).

Foreign investors would normally lack the context-specific competences to deal with highly inefficient local markets. They would thus seek to acquire them from local firms – and would therefore be more likely to enter by acquisition. An acquisition undertaken to overcome the lack of local competences, however, faces the challenge of integrating an idiosyncratic organization with the investor's global operation, and thus the prospect of radical organizational change and contribution of fresh resources from the new parent firm. Similarly, the easier it is to set up a new business in the country, the less foreign entrants may choose the route of acquiring a business that needs major restructuring. These lines of argument would suggest that brownfield acquisitions are more likely to happen where entrants try to circumvent obstacles created by a less than conducive institutional environment.

Institutional weaknesses that may lead to such obstacles, and thus the use of brownfield acquisition as a counter strategy may take several forms. Firstly, stronger protection of property rights suggests that it is less likely that the acquirer would encounter major problems in the acquired organization, notably its incentive systems. Hence, under strong property rights, we would expect to see fewer radical restructurings that create brownfield acquisitions. The protection of property rights includes notably the absence of threat of expropriation, independence and incorruptibility of the judiciary, and the ability of individuals and firms to enforce contracts. If investors face no substantial problems in any of these areas, we would expect that foreign acquirers to face less need for deep restructuring, and hence fewer brownfield acquisitions:

Hypothesis 4a: Acquisitions are less likely in the form of brownfield, the better is the local protection of property rights.

Second, transparency in the sense of effective and incorrupt bureaucracy is a major concern in many emerging economies (Rodriguez/Uhlenbruck/Eden 2005, Uhlenbruck/ Rodriguez/Doh/Eden 2006, Cuervo-Cazurra 2006). It leads businesses to adapt organizational forms that minimize potentially corrupt interfaces, notably higher degrees of integration of related activities. It would also lead business to establish organizational routines and cultures that enable the organization to interact with corrupt entities, either by avoidance or by accommodation. (Puffer/McCarthy 1995, Fey/Shekshnia 2008). Some of the routines would be considered unethical by potential foreign investors, who would face major challenges of organizational culture change when acquiring an organization in which corrupt practices (as defined by the foreign investor) are tolerated, or even a normal part of doing business. Hence, we expect that in contexts with low transparency, foreign investors would only find local target firms that require massive organizational change. Hence

Hypothesis 4b: Acquisitions are less likely in the form of brownfield, the higher are the local levels of transparency (i.e. the lower is corruption).

Third, barriers to establishment of new firms are a major obstacle to the development of the private sector in emerging economies (Aidis/Estrin/Mickiewicz 2008). However, the more new firms have been established under market oriented priors, the more foreign investors are likely to find attractive acquisition targets. Moreover, the integration of a young firm would cause fewer integration costs than the integration of an old firm that has accumulated considerably administrative heritage and organizational inertia (notably if this heritage relates to a more restrictive regulatory regime, or even a history of state-ownership and/or central planning as is common in transition economies). Hence, the easier the institutional framework makes it for entrepreneurs to establish new firms, the less foreign investors will see a need to engage in brownfield acquisitions:

Hypothesis 4c: Acquisitions are less likely in the form of brownfield, the easier in terms of administrative barriers and regulation that it is to set up a new business in the host economy.

On the other hand, brownfield acquisitions depend on effective post-acquisition processes of upgrading and integration of the acquired organization. This process is moderated by the institutional environment in various subtle ways, and certain institutional arrangements thus raise the 'digestibility' of acquired firms (Hennart/Reddy 1997). Extensive bureaucracy as well as strong informal pressures from powerful local stakeholders may, for example, inhibit or delay the building of facilities or infrastructure, and the changing of long-established supplier and distributor relationship. Moreover, differences in the regulatory regime for employment are closely associated with differences in organizational cultures, which inhibit the effectiveness of imported managerial practices (Björkman/Fey/Park 2007), and can be a source of resistance (Michailova 2002).

These constraints are magnified in contexts with institutions that provide strong bargaining positions to trade unions or employee representations (Aguilera/Jackson 2003, Capron/Guillén 2009). If changes in the patterns of work or – most importantly – the reduction of the workforce require some form of agreement with the employee representation, this raises the costs of restructuring – if fact it may undermine the feasibility of the entire restructuring project. Yet changing the roles of individual employees, including, but not limited to, their lay-offs is often a crucial aspect of post-acquisition integration. Hence, we propose:

Hypothesis 4d: Acquisitions are less likely in the form of brownfield, the harder it is to restructure labor and lay-off staff in the host economy.

In addition, the resource-based view suggests that replacement of the resources of an acquired firm would be more likely if the organizational resources of the local firm (apart from the specific one targeted by the acquirer) are weak relative to those of the acquirer. Foreign investors may still want to acquire such firms, especially if they control singular valuable resources such as local brand names or distribution channel access (Meyer/Møller 1998, Meyer/Estrin 2001). Yet, this singular resource may be insufficient to achieve the levels of efficiency and profitability that a foreign investor expects of its subsidiaries. This discussion suggests that brownfield acquisitions are most likely in local contexts characterized by weak local firms.

Hypothesis 5: Acquisitions are less likely in the form of brownfield, the more competitive the acquired firm is relative to other firms in its industry.

Methodology

Sample and data collection

Our hypotheses require us to use a dataset of acquisitions across a range of host countries with imperfect institutional frameworks. The dataset is based on questionnaire surveys of foreign investors in Egypt, Hungary, India, Poland, South Africa and Vietnam created by merging two recent FDI surveys (Estrin/Meyer 2004, Meyer/Estrin 2007). The host economies were selected using the criteria of significant FDI inflows and major liberalisation programmes during the previous decade, but they also varied significantly in their institutional context, which is crucial because several of our focal variables are about institutions.

In both surveys, the base population has been constructed from local databases and encompassed all registered FDI projects established within ten years before the survey, with a minimum employment of ten persons, and minimum foreign equity stake of 10%. The first questionnaire was administered between November 2001 and April 2002. Response rates ranged from 10% of the population in Egypt to 31% in South Africa. The second survey replicated the methodology in Hungary and Poland in the year 2002, and obtained matching samples with return rates of 11% and 10 % respectively.

From this dataset, we extracted all observations of acquisitions and partial acquisitions, of which we have 305. As is common in emerging markets, we lost some observations because respondents considered information to be too sensitive, or not available to respondents in the subsidiary (especially for parent-related data), or because an observation did not meet the sampling criteria in terms of firm size and age. Hence, we obtained 200 observations useable for regression analysis; a large sample for acquisitions research in emerging economies. We conducted T-tests on the main variables of interest (mode, experience, time of entry, R&D intensity, etc) comparing firms with and without missing values to test for sample selection biases, and found no statistically significant differences.

Operationalization of the concept

Meyer and Estrin (2001: 557) define brownfield acquisition as "*a foreign entry that starts with an acquisition but builds a local operation that uses more resources, in terms of their market value, from the parent firm than from the acquired firm*". In order to undertake empirical work, we need to operationalize this concept. We do this in terms of the relative contribution of foreign investor and local acquired firm to the new subsidiary.

Cheng (2006) asked respondents directly to classify their investment as greenfield, brownfield acquisition, or conventional acquisition, giving them descriptions of the respective terms. We believe a better way to measure the construct is to obtain information about the resources employed in the operation, and their origins. This overcomes limitations that may arise from respondents' lack of understanding of the academic terminology. Hence, we asked the respondents a two-step question. First, we asked them to identify the resource that is most important for the performance of the local subsidiary from a list of 17 items. The second question asked to indicate the origins for the top resource by assigning a percentage to each type of origin – for our purposes here the percentage contributed by the local firms is of interest. We classified an entry as brownfield acquisition if the local firm contributed less than 50% of this resource.[2]

Explanatory variables

Subsidiary role. Our measure for *relative size* (H1) is based on a questionnaire item in which the respondent reported the sales of the subsidiary as percentage of the sales of the parent firm along a scale from 0 (0 to 0.1%0 to 6 (over 20%). *Export propensity* (H2) is measured by the percentage of sales sold outside the domestic market of the subsidiary as reported by the respondent in a write-in question. *Conglomerate* (H3) is a dummy variable taking the value of 1 if the respondent reported the parent to be a diversified conglomerate as opposed to a related diversified or a focused firm.

Institutions. Our institutional measures have been taken from the Heritage Foundation's "Economic Freedom" indices. These indices distinguish ten aspects of countries that affect the freedom of business and the efficiency of markets, including several aspects of government policy. They have frequently been used as a measure of institutions in both economics and strategy research (Berggren/Jordahl 2005, Meyer/Estrin/Bhaumik/Peng 2009, Shinkle/ Kriauciunas 2010). However, empirical tests suggest that this form of aggregation may not be appropriate as standard validity test are not met (e.g. Crombach's alpha), which suggests that we are not dealing here with a single construct called 'institutions'. Rather, the individual sub-indices are different constructs that ought to be treated as such in empirical analysis. Similarly, theoretical considerations such as those laid out in our hypothesis development suggest that the different aspects of institutions indeed affect our dependent variables in different ways.

Hence, we use the sub-indices and select those where our theoretical consideration suggest that they would impact directly on businesses market transactions or post-acquisition integration processes. Specifically, we use the Heritage Foundations indices for *property rights, business freedom* (which is based the World Bank's costs of establishment data), *freedom from corruption*, and *labour freedom*. We have constructed these variables in a time-varying manner (similar to Meyer/Estrin/Bhaumik/Peng 2009), that is each observation is assigned the index value for the year of entry. An exception is labour freedom, which has only been introduced more recently and is thus not available for every year.

[2] In a robustness test, we also used the percentage of resources from the local firm, or an indicator based on three resources. These variables turned out to be subject to considerable noise in the data, yet empirical results were not contradicting our results with the main analysis.

Quality of local firms (H5). Respondents reported their perceptions about the *quality of local firms* at the time of entry on three aspects (quality and range of services, management capabilities, marketing capabilities), using a 5-point Likert scale. The aggregate measure for *local firm quality* has a Crombach's alpha of 0.79.

Control variables

Ownership. The restructuring of an acquired firm depends not only on the foreign investor, but also on local partners that have an influence on the corporate decision making process. If an acquisition is only a partial acquisition, then a wide array of residual shareholders may have some influence on strategic decisions (Meyer/Tran 2006). Under conditions of shared ownership, investors may be particularly concerned about maintaining control over the operation to ensure return on their investment, in particular over knowledge transfers made in the process of restructuring. This suggests that foreign investors are more able to turn their acquisition into a brownfield acquisition the higher their equity stake. Hence, we include a dummy variable indicating whether the subsidiary has been initially established through a partial acquisition.

Subsidiary specific controls: An *experience* dummy is included because we expect that experience in the local context directly influences mode choice. MNEs with prior experience in the host country might have already developed routines that are adapted to its particular context and which reduces the need for local partners. *Resource-access* is a variable that control for the degree to which the subsidiaries reports to have access to parents' resources. It is based on 3 items of a Likert scale measure.

Parent specific controls: We control for the *parent size* of the parent firm using the parent firms global employment as proxy, and we introduce as a proxy for the characteristics of the home country the per capita GDP (*GDP pc source*).

Empirical relevance

The first part of the research question of this paper relates to the empirical relevance of the concept; is it meaningful at all to talk of 'brownfield acquisitions' outside Eastern Europe, where Meyer and Estrin (2001) and Estrin, Hughes and Todd (1997) first described the phenomenon. We are now able formally to answer this question in the affirmative, as Table 2 illustrates. We find that brownfield acquisitions exist in all the countries of this study, accounting for 48% of all acquisitions in the total sample. Moreover, we note that they exist among both full and partial acquisitions, and in fact among full acquisitions there are relatively more brownfield acquisitions.

**** Table 1 approximately here ****

Empirical Analysis and Results

Our dependent variable is a binary dependent variable; hence a binary Probit regression is the appropriate functional form. Table 2 reports the descriptive statistics and Table 3 the correlation matrix. These data indicate that our measures of the different aspects of the institutional environment, which we use to test hypotheses 4a to 4d, are in fact highly correlated. This is not surprising because they all relate to the broader concept economic development. In consequence, we employ an approach also used by Bevan, Estrin and Meyer (2004), namely to enter these variables one at a time. This will allow us to assert the existence of an overall effect, and which components are likely to contribute to this effect, yet it does not allow a conclusive answer on whether each of the variables has an independent effect (due to the correlation between them).

We find strong evidence for the set of variables relating to the subsidiary's role within the MNE. Relative size is significantly positive at 5 or 10% in all specifications. Export propensity makes brownfield acquisitions more likely, as suggested in H1; though the evidence is statistically weak in that the significance level fall below the 10% benchmark in one specification. For conglomerates the result is again very strong in that the coefficient is significant at 5 to 10% across specifications. Thus we cannot reject the alternative and thus maintain that brownfield acquisition is a phenomenon in particular associated with investment projects that take a major strategic role within the acquired firms' global operations.

The institutional variables are entered as a "horse race", appearing one at a time in Models 1 to 4, with mixed results. The negative effects predicted for property rights, business freedom and corruption are confirmed in the individual regressions. In contrast, the effect of labour freedom is signed as predicted but statistically not significant. Thus, we may interpret this as suggestion that such an opposing effect may exist, but the evidence does not allow to reject the alternative of no effect. The quality of local firms as assessed by the respondents themselves also does not seem to influence the likelihood of brownfield acquisition in the way that we had expected.

Considering the control variables, somewhat to our surprise, the ownership variable is not significant. We had expected that brownfield acquisitions would be easier to implement in full acquisitions rather than with shared ownership. Apparently, foreign investors use means other than equity ownership to assert their control and thus to both force implementation of restructuring and to accrue its benefits. We did an additional robustness test based on a dummy capturing majority (rather than full) ownership, but this did not generate significant results either. Among the industry dummies, only the dummy for the trade and tourism sector (SIC 61 to 63) is significant, and positive, perhaps because acquisitions in this sectors primarily serve as a local sales channel that needs to meet the MNEs' overall standards of service quality.

Discussion

Challenges to Theory

In this study, we have developed and sharpened the concept of brownfield acquisition, and established its relevance beyond the specific context where it was originally described. Evidence from a range of cases as well as our own descriptive statistics (Table 1) suggests that brownfield acquisition is indeed a widespread phenomenon, at least in emerging economies.

Second, we have argued that the notion of brownfield acquisition provides a focal point for resource-based research into the growth processes of firms. In particular, foreign investments are combining resources in different ways. In some cases, they draw on substantial contributions of both a local firms and a foreign investor, which results in a resource integration process in which the transferred resources dominate over those of the acquired firm. We call these brownfield acquisitions. They illustrate important features of firms' resource accumulation and growth processes that were not considered in standard studies of firm growth in Penrose's (1959) tradition. In particular, resource accumulation is a process in which (a) resource acquisitions and disposals are part of the same growth strategy (Capron/Mitchell/Swaminathan 2001), (b) resource acquisitions trigger processes of adaptation and integration that may transform the acquired resources beyond recognition, and (c) acquisitions of entire firms may present a platform for organic growth (Kazenjian/Hess/Drazin 2006) rather than the main building bloc of a new operation.

Third, we have applied the institutional perspective to the concept of brownfield acquisition, arguing that different aspects of institutional developmet are likely to affect business strategies – such as the choice of brownfield acquisition as mode of entry – in different ways. In particular, the need for complementary local resources to deal with idiosyncratic local institutions often conflicts with the obstacles of managing such resources embedded within local firms. This suggests a modification of Meyer and Estrin's (2001) original line of argument. They associated the prevalence of brownfield acquisition in CEE in the early 1990s with the extensive restructuring needs caused by the weak privatized firms carrying the inheritance of central planning. However, equally important must have been the ability of foreign investors to implement corporate change in the institutional context of transition economies. There was an unusual degree of willingness to engage in change because of awareness of the shortcomings of the old system, and Western models were seen as key to overcoming the East-West gap in development. In other words, the 'not invented here' syndrome was particularly weak and cognitive awareness of the shortcomings of the inherited structures and routines was high (Antal-Mokos 1998; Meyer/Møller 1998). This willingness to change must be as important as the need for change in explaining why radical change in firms acquired by foreign investors was feasible.

This has broader implications for the advance of the IBV as a theoretical foundation for business strategy. Institutional voids appear in different markets in which firms operate, and firms develop different strategies to deal with these voids (Khanna/Palepu, 2010). Of particular interest may be the potentially opposing effects of institutional development, which both reduce the need for a local partner and increase the feasibility of acquisitions. Institutional change may also affect different stages of an investment process: Transparency in financial market helps due diligence and thus pre-acquisition processes, while labour market deregulation may facilitate post-acquisition restructuring. Different aspects of institutional reform may thus have complementary effects on businesses' design of entry strategies. This suggests that the route forward for IBV lies in the examining the differential effects of different aspects of institutional development, rather than in their aggregation. In fact, aggregate indices tend to lack empirical construct validity with Crombach's alpha statistics being rather low. Thus, future research may aim to develop suitable sub-indices to capture distinct features of the institutional framework.

Future Research

This study raises numerous issues that merit further research. Brownfield acquisition is a fairly new concept – at least for empirical research – and thus the collection of an appropriate dataset posed considerable challenges. As we needed to obtain detailed data about the subsidiary to construct our dependent variable, it was appropriate to collect data at this level. However, characteristics of the investing firm are also likely to be relevant. This is really a question of who is most likely to pursue a strategy that depends on the combination of the investors' own resources with those embedded in local firms (Harzing 2002). Our theoretical arguments may be extended to argue that *brownfield acquisitions are most likely to be undertaken by firms that compete on the basis of capabilities that are embedded in the global organization, yet that need to be combined with specific local resources in each local context in which the firm operates*. We collected data at the subsidiary level to obtain good measures of characteristics of the local business unit, which however limited the quality of data that we have been able to obtain about the parent firm. Thus, we have not been able to test hypotheses that would relate characteristics of the parent, such as their global strategy or their R&D and advertising intensity to their prevalence of using brownfield acquisitions as a mode of foreign entry. Future research may thus investigate which types of MNEs would be most likely to engage in brownfield acquisitions.

Second, we benefit from data from six different countries and covering foreign acquisitions over a ten year period. However, since institutional indices are fairly stable over time, the main variation in these indices is between the six countries. Yet, with such a small set of countries and four variables varying across countries, the correlation between these four variables unavoidably has been high. Future research using a wider range of countries thus may provide more solid evidence of the relative importance of alternative influences.

Third, we have developed a questionnaire-based measure of brownfield, which takes account of the fact that for different subsidiaries different types of resources are most crucial, and then relates those most crucial resources to their origins. The measure provides a substantive advance in the research on brownfield acquisitions, which has hitherto been inhibited by the absence of a suitable measure. However, this measure incorporates a subjective assessment of resources. Future researchers may want to experiment with alternative measures, including measures based on archival data such as the subsidiary accounting data (though they are rarely available after the acquisition).

Fourth, future research may investigate the performance implications of brownfield acquisitions. We have argued that companies would only undertake such acquisitions when both conventional acquisitions and greenfield projects are not feasible or prohibitively expensive because brownfield acquisitions involve particularly complex (and thus both costly and risky) processes of resource transfer, integration and restructuring. However, investors would only undertake them if – at least in the long run – they expect a positive contribution to corporate performance. This contribution may however not materialize in the short run, and it may not arise at the subsidiary level but elsewhere within the MNE. Hence, we posit that the expected long-run impact of brownfield acquisitions on corporate performance is a) less favourable than conventional acquisitions, and b) better than not investing at all. This proposition would need to be tested combining subsidiary and corporate level data.

Conclusions

Our study offers contributions to theory development in international business as well as to for management practice and public policy. For theory development, our main contribution is the refinement and extension of the concept of brownfield acquisition. We propose that this insight may be relevant far beyond the context of emerging economies as host countries: Chinese outward investment often aims to acquire internationally known brand names and, possibly, technology (Deng, 2009; Hennart 2009). Yet these firms would typically be disinterested in production operations as they would not fit with their – often labour intensive – business model. Hence, they may engage in brownfield acquisition, yet focused on different types of resources.

Moreover, we have demonstrated the usefulness of the interaction of resource and institutional perspectives in explaining phenomena in the real world of international business – notably, understanding the specific features of the resource and institutional environment allows to explain why firms choose non-conventional organizational forms. We expect that the theoretical challenges to both RBV and IBV, as outlined in the discussion section, will motivate future theorizing.

For management practice, we offer brownfield acquisition as a concept that ought to help managerial decision-making regarding foreign entry. Brownfield acquisitions have a potentially unattractive feature: high costs and risks of post-acquisition restructuring. Hence, they are unlikely to be the preferred option when conventional acquisitions or greenfield projects are feasible and enable attainment of the strategic objectives. However, brownfield acquisitions offer a way to pursue strategic objectives when conventional entry strategies are not feasible, or too costly. In such cases, investors may have a choice between brownfield acquisition and not investing at all and this may explain their frequent use in our sample of emerging markets.

Decision-making processes over foreign entry may involve two stages, defining the objectives and deciding by which mode of entry to achieve them (Hitt et al., 2001; Bower, 2001). In other words, entrants would envisage where they would want to be in the long term, and then assess each acquisition opportunity in terms of its contribution to this goal. This strategic view differs from a purely financial perspective assesses only on the risks of and return of each acquisition opportunity in isolation from other (potential) transactions. A brownfield acquisition often takes the role of a platform for growth (Kazanjian/Hess/Drazin 2006), and thus is only a small building bloc in the process of foreign entry. Hence, strategic decision makers may focus on the entry process as a sequence of transactions – some of which costly in isolation – with profits arising from the synergies between multiple investments.

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Figure 1: A Classification of Entry Modes

Type of ownership	Type of growth strategy		
	Acquisitive	**Platform for growth**	**Organic**
Full ownership	Acquisition (full)	Brownfield acquisition (full)	Greenfield (full)
Partial ownership	Partial acquisition	Brownfield acquisition (partial)	De novo joint venture

Note: Shaded area = Acquisitions (coverage of this study)

Table 1:
Incidence of Brownfield across countries

	Acquisitions, conventional	Acquisitions, Brownfield	Partial acquisitions, conventional	Partial acquisitions, Brownfield	Total
Egypt	2	4	11	5	22
India	4	2	7	3	16
South Africa	24	26	10	13	73
Vietnam	3	0	16	1	20
Hungary	17	20	12	12	61
Lithuania	13	17	6	5	41
Poland	26	27	9	10	72
	89	96	73	49	305

Table 2:
Means, Standard Deviations

	Minimum	Maximum	Mean	Std. Deviation
Relative size	1	6	3.24	1.677
Export propensity	0	100	29.30	34.971
Conglomerate	0	1	.15	.355
Business Freedom	40	85	72.79	13.924
Property Rights	10	70	53.92	16.137
Freedom from Corruption	10	70	45.52	14.459
Labour Freedom	58.7	68.2	62.002	3.8458
Quality of Local Firms	1.00	5.00	2.8995	1.02948
Ownership	0	1	.56	.498
Experience	0	1	.55	.499
Parent resources	1	5	2.96	1.155
Parent size (employment)	4	23060	485.32	1948.364
Privatization	0	1	.52	.501

Table 3
Correlation Table

		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Relative size	1													
2	Export propensity	.32	1												
3	Conglomerate D	.14	-.04	1											
4	Business Freedom	-.04	-.06	-.07	1										
5	Freedom from Corruption	-.01	.19	.02	.55	1									
6	Property Rights	.04	-.17	.12	-.11	-.55	1								
7	Labour Freedom	-.03	.19	.00	-.13	.50	-.59	1							
8	Local Firms	-.06	.15	-.04	-.20	.11	-.02	.07	1						
9	Ownership	-.03	.08	.03	-.16	-.13	.09	-.11	-.03	1					
10	Experience D	-.04	.06	-.18	.04	-.10	.04	-.03	-.08	.10	1				
11	Parent resources	-.05	.17	-.06	.25	.05	-.17	-.13	-.02	-.02	.07	1			
12	Parent size (employment)	-.09	-.13	-.08	.11	-.13	-.05	.08	.11	.06	.01	-.11	1		
13	Privatization D	.10	.04	.05	.22	-.13	-.04	-.20	-.10	-.09	.07	-.02	-.14	1	
14	GDP pc source country	.13	-.07	.05	-.06	.19	.-.17	.19	.15	-.14	-.12	.01	.05	-.03	1

Table 4:
Regression Results

	Hypothesis	1	2	3	4
Subsidiary Role					
Relative size	H1a: +	.238 (.118) **	.228 (.118) *	.230 (.11) **	.235 (.116) **
Export propensity	H1b: +	.009 (.006)	.010 (.006) *	.010 (.006) *	.010 (.006) *
Conglomerate	H1c: +	1.119 (.529) **	1.010 (.527) *	1.047 (.527) **	1.266 (.514) **
Host Economy					
Business Freedom	H2a: -	-.043 (.015) ***			
Freedom from Corruption	H2b: -		-.049 (.015) ***		
Property Rights	H2c: -			-.024 (.012) **	
Labour Freedom	H2d: +				.037 (.046)
Local Firms	H3: +	.270 (.175)	.213 (.173)	.203 (.168)	.194 (.169)
Controls					
Ownership		-.398 (.381)	-.371 (.374)	-.654 (.358) *	-.841 (.348) **
Experience		-.655 (.356) *	-.570 (.362)	-.698 (.351) **	-.722 (.349) **
Parent resources		-.561 (.165) ***	-.544 (.162) ***	-.416 (.156) ***	-.483 (.161) ***
Parent size (employment)		.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
Privatization		.040 (.363)	.168 (.361)	.254 (.360)	.113 (.363)
GDP pc source country		.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
10 Industry dummies		Yes *	Yes **	Yes **	Yes *
Constant		3.243 (1.784) *	2.497 (1.617)	-1.107 (1.456)	-1.996 (3.108)
Number of observations		200	200	200	200
Wald χ^2		50.79 ***	53.78 ***	45.76 ***	42.22 ***
Nagelkerke R^2		.30	.31	.27	.25
Log likelihood		-226.3	-223.3	-231.3	-234.9

Notes: * / ** / *** = 10% / 5% / 1% significance level.