Cross-border acquisitions of emerging markets firms

Factors that influence what marketing strategy is used

Merger and acquisitions (M&As) involving foreign firms is one of the many consequences of globalization. Participating in such cross-border ventures provides organizations with valuable opportunities to increase their presence on the international stage.

Marketing challenges following an acquisition

But post-merger integration (PMI) can be a time of considerable dilemma for the acquiring company. A major question facing most is what form marketing strategies should take. Are standardized approaches most relevant or is it better to adapt these strategies to ensure their suitability for localized environments?

The issue is especially important for companies based within emerging markets. Statistics show that emerging market firms (EMFs) are increasingly engaging in cross-border acquisitions. However, research into the strategies deployed has thus far been minimal.

Relevant studies have largely focused on developed markets. In these contexts, cost and value typically influence marketing strategy decisions. Some analysts found that target firms adopted the acquiring organization's brand identity in over three-quarters of cases. The exceptions involved either major brands in their own right or those that function as independent subsidiaries.

Brand identity is a critical aspect of any business. Making the right decision with regard to standardization or adaptation is therefore imperative. Poor integration is a major reason why M&As often fail. The importance of the PMI stage thus cannot be underestimated.

Identity crisis

Despite the onset of globalization and associated explosion of international trade, cultural barriers prevail. Indeed, issues surrounding culture and identity are often cited when an M&A proves unsuccessful. Such problems afflict EMFs, in that they are frequently viewed in negative terms because of their perceived foreignness and stereotypical assumptions about their country of origin (COO). Consumer reluctance to buy the products of an EMF is one outcome of such thinking. This only adds to the quandary of which marketing route to choose.

To muddy the waters further, the norm in certain emerging nations is for different ownership structures to exist. One example is the prevalence of big business groups in India. In these circumstances, it is thought that most EMFs will opt for standardized marketing strategies following an M&A. The same outcome is presumed about China, where many enterprises are under state ownership. It is also mooted that privately owned EMFs might likewise opt for standardized strategies to ensure alignment with the home market.

Brand identities of targets also influence decision-making. Frequently, EMFs acquire major brands as a means of accessing strategic assets, technologies, and consumers. In these situations, adapting marketing strategies to local demands can be something of a no-brainer. A perfect illustration of this is the acquisition of long-established British company Tetley Tea by India's Tata Tea Ltd. This gave the acquiring organization access to important technologies and expertise, as well as global markets. Totally absorbing Tetley under the Tata umbrella would surely have been an unwise move.

Brand strength is often evident in high-technology industries. Therefore, standardization would arguably be less feasible in these situations too.

The importance of institutional and cultural aspects

Evidence also points to the significance of institutional norms and cultural factors. In the first instance, differences in such as language and political risk are important aspects. Economic and legal distance often influences marketing strategy decisions too.

Cultural factors incorporate various dimensions pertaining to such as power distance, uncertainty avoidance, and time orientation. Other key aspects include whether individualism or collectivism defines the prevailing culture and its orientation towards masculinity or femininity. However, the effect of these various elements can be moderated if historical connections or strong ethnic ties exist between the respective nations involved in the M&A.

The potential influence of all these characteristics can be observed in a comparison of the actions of EMFs in China and India. Chinese firms frequently engage in cross-border activities with Hong Kong, while EMFs in India are more inclined to invest in the USA. As well as differences in ownership structures being common, contrasts in such as historical and ethnic relations with other nations are apparent. Ethnic Indians are well represented in South Africa, for example. A similar picture is evident in Malaysia with regard to its large Chinese population.

Key findings

Some indications from this work are contrary to expectation. For instance, marketing strategy decisions are not influence by business group membership or being owned by the state. On the other hand, standardization becomes likelier when acquirers are private entities. Such concerns are usually subject to less external scrutiny than firms under public ownership. It is consequently assumed that EMFs will be more confident about integrating assets from the acquired company with its own.

A positive impact of institutional distance on opting for standardized marketing strategies post-acquisition was likewise unanticipated. This tendency is perhaps more understandable when the target firm's country is less developed that the EMF's country. In these circumstances, standardization would offer greater benefits than if the target's domestic identity was retained. However, greater economic freedom in the host nation generates the opposite effect. Permitting acquired firms to remain independent and adapting strategies accordingly represents the more sensible move.

But post-merger integration (PMI) can be a time of considerable dilemma for the acquiring company.

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Compared to these institutional disparities, the effect of cultural distance seems much stronger. Standardized marketing strategies thus have lower appeal and targeted firms are likely to enjoy freedom to adapt strategies as necessary. Notwithstanding this, presence of strong historical and ethnic ties can help raise the profile of EMFs across the border. And when an acquiring company becomes more readily accepted, there is greater inclination to take the standardized approach where marketing strategies are concerned.

Organizations might try to identify additional characteristics that could potentially influence what marketing strategies are most appropriate. The likelihood of firms adjusting their approach to satisfy corporate social responsibility requirements is also worthy of consideration.

Comment

The review is based on "Standardization versus adaptation of global marketing strategies in emerging market cross-border acquisitions" by Rao-Nicholson and Khan (2017). Challenges facing emerging market firms (EMFs) when making cross-border acquisitions are examined in detail here. Such firms must decide whether to use standardized marketing strategies for acquired companies or adapt these strategies in accordance with localized needs. The authors identify various important factors and their likely effect on decision-making. A comparison of EMFs in China and India helps illustrate many of the significant points made.

Keywords:
Marketing strategies,
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Reference

Rao-Nicholson, R. and Khan, Z. (2017), "Standardization versus adaptation of global marketing strategies in emerging market cross-border acquisitions", *International Marketing Review*, Vol. 34 No. 1, pp. 138-158, doi: 10.1108/IMR-12-2015-0292.