

Paper Title

**Valuation and Performance Consequences of Cross-border Acquisitions:
Indian Acquirers and Foreign Targets**

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Valuation and Performance Consequences of Cross-border Acquisitions: Indian Acquirers and Foreign Targets¹

Abstract

This paper studies the role of the merger motives driving a cross-border merger/ acquisition in an emerging economy context and its impact upon the short term value creation for the acquiring firm. We classify the deals using broad exploration- exploitation constructs using content analysis and through an event study determine that Indian cross-border acquirers create value through cross-border M&A in the short run. The exploration motive is found to be associated with significantly higher acquirer gains compared to deals motivated by exploitation.

Introduction

It is now fairly well established that the exogenous shock of liberalization in emerging economies² in the 1990s has resulted in spurring the market for corporate control in these economies, including India (Anand and Delios, 1995; Kumar, 2000). Both domestic and cross-border mergers and acquisitions in the emerging economies saw a rise in volume as well as total deal value in the two decades following initiation of economic liberalization. The phenomenon of mergers and acquisitions till recently had been studied only in the context of the market for corporate control in the developed economies. The data from merger waves in the last two decades have enabled the researchers to carry out investigations into mergers and acquisitions taking place in the context of emerging economies, enabling a more comprehensive understanding of this phenomenon (Gubbi, Aulakh, Ray and Chittoor, 2009).

1 The authors are grateful to ***** (mentioned on the cover page), for help in establishing the reliability of the content analysis carried out for allocating merger motives in this paper.

2 Defined as 'a country with rapid pace of economic development and govt. policies favoring economic liberalization and adoption of free market system,' (Arnold & Quelch, 1998; Hoskisson et. al., 2000). Though there is no consensus on a standard list of such countries, some of the features common to such countries include difficulty in garnering external financial assistance as macroeconomic stability is difficult to achieve, missing institutional features (like shortage of skilled labor, infrastructure problems, and thin capital markets), difficulty in enforcing property rights even though they have been enacted, and lack of strong legal framework (Hoskisson et. al., 2000).

The emerging economy firms have been active targets for the developed economy firms, but the emerging economy firms have also acquired targets in the developed countries, particularly in the latest merger wave. The proportion of the emerging economy acquirers has, however, been lower compared to the developed economy acquirers buying the emerging economy firms. These cross-border acquisitions, particularly acquisitions by the emerging economy firms represent a relatively under-researched area of mergers and acquisitions (M&A), mostly on account of paucity of such deals in the past. The latest merger wave was characterized by a higher proportion of such cross-border deals, and this study seeks to inform the field through analysis of data that have become available in the recent years.

The developed economy firms entering the emerging economies through acquisitions is a relatively new phenomenon. Contrary to extant wisdom on domestic M&A, the developed market acquirers post significant positive gains upon acquisition of a publicly listed emerging market target. The key to value creation in this context of problems arising from incomplete contracts is acquisition of majority control. Acquisition of minority stake does not result in value creation for the developed economy acquirer (Chari, Ouimet and Tesar, 2004). The extreme asymmetry in relative size and lack of competing bids are some other features of the developed economy acquirers making acquisitions in the emerging economies. Overall, both the target firm and the acquirer post significant positive post-acquisition returns in this context.

A study of the emerging market acquirers targeting the developed markets also shows that the context is important for value creation after acquisition. Chittoor (2008) finds that Indian firms expanding internationally through acquisitions create value for their shareholders through significant positive post-merger returns. Further, these gains are higher for acquisitions made in the developed economies, compared to the acquisitions of targets from the other developing economies. Uhlenbruck & De Castro (2000) in their study of acquisitions of state owned enterprises in former communist countries of Central and Eastern Europe by western firms find modest support for a positive relationship between post-merger performance and industry relatedness. They also find a positive relationship between post-merger performance and country risk, and explain this in terms of foreign acquirers' ability to cherry pick state owned enterprises in high risk countries.

Pop's (2006) study of the market for corporate control in Romania suggests that the emerging economy context has implications for value creation for the target. Contrary to popular M&A findings, the target returns in the changed context do not differ significantly from zero. Pop (2006) ascertains that investors include information about scope of expropriation potential through pre-event insider trading, when evaluating acquisitions in this context.

The early studies of the role of Indian participants in cross-border acquisitions was confined to the performance implications for the developed economy firms targeting emerging economy firms, where contrary to observations in the developed economy settings, findings indicated that such acquisitions were beneficial both for the developed economy acquirer and the emerging economy target, particularly in cases where majority control was obtained by the acquirer (Chari, Ouimet and Tesar, 2004). Further, a significantly higher value creation by MNCs acquiring Indian firms compared to domestic Indian acquirers was also noted (Kale, 2006).

Later studies have focused on operating performance aspects of domestic acquisitions in India, with mixed results. Ramakrishnan (2008) finds that in the long run, accounting based measures of performance indicate that mergers in India have resulted in enhanced post-merger firm operating performance following the merger. Using a similar sample, Mantravadi and Reddy (2008) investigate the post-merger performance of the domestic Indian acquirers vis-à-vis the type of acquisition— vertical, horizontal, or conglomerate, and conclude that the horizontal mergers led to the highest decline in operating performance following the merger. Apart from these studies that provide mixed results, empirical testing of post merger operating performance of the domestic Indian acquisitions has been quite limited so far, and focused specifically on the manufacturing sector, using small samples or individual cases, and over limited periods of time (Mantravadi and Reddy, 2008).

The study of cross-border acquisitions by the Indian acquirer is of recent origin. Gubbi et. al. (2009) find that value is created for the Indian acquirer undertaking cross-border acquisitions. Further, the magnitude of value created is higher for Indian firms when the target is located in an advanced institutional and economic environment. However, attention towards the merger

motives in these cross-border transactions by the Indian acquirers have not been dealt with sufficient rigor.

This study proposes to contribute to this recent but growing body of knowledge by investigating in detail the role of motives behind mergers and acquisitions involving an Indian acquirer, and its impact upon the expected post merger performance. Specifically, the study addresses the following research questions:

1. Whether the cross-border acquirers from the emerging economies such as India create value in the short run,
2. Whether the level of development of the target firm country of origin has any implications for post-merger performance of the acquiring firm,
3. Whether the motives behind these acquisitions play a role in determining its success or failure,
4. How well the explanatory variables of post-merger performance in extant literature on cross-border M&A explain the post-merger performance of such acquisitions in the context of the emerging economies.

Different motives drive the cross-border mergers and acquisitions. Our study emphasizes the international character of cross-border mergers and acquisitions in investigating such motives, by drawing from the internationalization literature. The variegated ideas on the issue of ‘why’ foreign direct investment takes place can be interpreted as the answer to the question why cross-border M&A takes place— M&A is one of the routes to FDI, others being greenfield investment, and JV tie-up with a local firm in foreign nations.

The motives may also be considered from the perspective of exploration and exploitation that has its genesis in the organizational learning literature (March, 1991). The organizational learning literature associates exploration with terms such as search, variation, risk taking, experimentation, flexibility, discovery and innovation, and describes exploitation as being associated with terms such as refinement, choice, production, efficiency, selection, implementation and execution (March, 1991). Since their development in the area of organizational learning, these conceptual distinctions have been extended to a number of

managerial contexts. Utolia, Maula, Keil and Zahra (2009) discuss ‘strategic management (e.g. He and Wong, 2004), organization theory (e.g. Holmqvist, 2004; Siggelkow and Levinthal, 2003), technology and innovation management (e.g. Brenner and Tushman, 2002, 2003; McGrath, 2001) and managerial economics (e.g. Ghemawat and Rickart i Costa, 1993)’ as evidence of broad application of these constructs in literature.

Extending the exploration and exploitation constructs to the merger motives, we have attributed exploration and exploitation motives to acquisitions where the stated motives behind them have corresponded to these terms.

These two constructs of explorative acquisitions and exploitative acquisitions have been further refined in terms of the categories of FDI defined by Dunning’s (1993 and 2000) elaboration of the eclectic paradigm. Emphasizing the role of context in undertaking FDI decisions, FDI has been broadly categorized by scholars as *market seeking* (demand oriented), *resource seeking* (natural resource supply oriented), *rationalized or efficiency seeking* (asset portfolio specialization or more efficient division of labor), and *strategic asset seeking* (augmentation of ownership specific advantages) (Dunning, 1993; Hopkins, 1999 and Dunning 2000). The asset seeking and asset exploitation motives of FDI (Wesson, 1993) also correspond to this classification.

Dunning (2000), while emphasizing the role of the contextual setting when studying the determinants of FDI through the eclectic paradigm comprising OLI framework, acknowledges four main types of foreign based MNE activities (Dunning, 1993 and Dunning, 2000):

1. A market seeking or demand oriented FDI— It is meant to satisfy a particular foreign market or sets of foreign market,
2. Resource seeking or supply oriented FDI—It is designed to gain access to natural resources such as minerals, unskilled labor, etc,
3. Rationalized or efficiency seeking FDI— It is designed to promote a more efficient division of labor or specialization of existing portfolio of foreign or domestic assets by MNEs,

4. Strategic asset seeking FDI— It relates to factors that can result in competitive advantage for the firm compared to the competitors in that foreign market. These could either enhance advantages to the firm or reduce advantages available to the competitors.

In this study, using the exploration-exploitation perspective, the market seeking FDI/ acquisition and the rationalized or efficiency seeking FDI/ acquisition have been considered representative of an exploitative motive, whereas the resource seeking FDI/ acquisition and strategic asset seeking FDI/ acquisition have been termed as explorative in motive. From the broad definition of these types of motives behind a cross-border acquisition, we further define these in detail in order to perform the content analysis of publicly available information on motives behind these acquisitions. They have been detailed in the methodology section of the paper.

The emphasis of the firms from the emerging markets acquiring the firms in the developed markets is mainly exploration rather than exploitation (Wright et. al., 2005). New technological capabilities are sought (Cantwell, 1992), and this exercise may also develop potential absorptive capacity of such firms (Zahra and George, 2002). This enables such firms to attain global competitiveness in the long run, and transfer the newly developed capability to the home country, thereby enhancing competitive advantage of the firm. The market mechanism in the emerging economies is not conducive to obtaining these tangible and intangible resources optimally, and to develop them internally takes time (Gubbi et. al, 2009). In particular, the acquisition route to obtaining these resources may be attractive for the emerging economy firms in view of their stickiness, and their synergistic value as a complement the existing resource base of these acquirers. We therefore hypothesize that for Indian cross-border acquirers, acquisitions driven by an exploration motive will be associated with significant value gains, particularly into the developed economies.

Indian firms undertaking cross-border acquisitions with an exploitation motive have to contend with the same liabilities of foreignness (Zaheer, 1995) as firms with an exploration motive. However, for the emerging economy acquirers, the competitive advantage obtained in the home country through networks and close business-government ties may not be possible in the foreign markets. The institutional requirements including that of corporate governance may be difficult to implement for the firm in the developed market (Hoskisson et. al., 2000). Further, if a firm

attempts exploration, but was focused on exploitation earlier, the social capital of existing routines that served the firm well in its home environment may become a liability in its attempts to learn (Nahapiet and Ghoshal, 1998; Wright et. al., 2005). Hence, we hypothesize that the firms exploring the developed markets would be associated with higher returns compared to firms undertaking cross-border acquisitions with an exploitation motive. The cross-border acquisitions undertaken with exploration motive by Indian acquirers would also enable them to develop new capabilities allowing them to attain comparatively better resource utilization.

We have used a multi-theoretic perspective to study cross-border M&A in this paper. Drawing upon internationalization strategy of firms, the resource based view (RBV) and organizational learning has enabled us to ground our research findings in the context rather than a single theoretic stream. A major finding of this paper is that cross-border Indian acquirers create value in the short run, which is corroborated by existing literature, but is at variance with extant M&A wisdom that associates nearly zero or even negative returns with the acquiring firm. Further, we find that the motives behind an acquisition have an impact upon the value created by the acquiring firm for its shareholders, and acquisitions associated with exploration motive were associated with significantly higher post merger returns compared to the acquisitions undertaken with exploitation motive. The paper is organized as follows. The next section on data and methodology comprises three sub-sections: content analysis, event study to determine acquirer abnormal returns, and determinants of these returns. A description of the model used is provided in the subsequent section, which is followed by results and its discussion. The last section concludes with a discussion on implications of the study.

Data and Methodology

We first determine the motives behind each deal in the sample through a content analysis of publicly available data. An event study methodology is used to calculate the cumulative abnormal returns (CARs) for the sample. We then identify the determinants of post-merger performance in the short run using the CARs obtained from the event study.

Data

The data for the study has been collected from multiple sources. Thomson SDC Platinum M&A database³ was used to collect information on cross-border mergers and acquisitions by the firms of Indian origin. Only completed deals were considered, for the period from March 2002 to September 2008. The number of deals prior to this period with sufficient information on various deal characteristics is small. LBOs, spin offs, recapitalizations, exchange offers, repurchases, minority stake purchases, acquisition of remaining interest or privatization deals were not included in the sample. For deals characterized by creeping acquisitions, the earliest available date was considered to be the announcement date, as it was assumed that the information available to the market at later dates would not add much to the information already built into the firm stock prices at the earlier date of announcement.

A total of 573 deals were obtained from Thomson SDC database corresponding to these criteria. For each of these deals, publicly available information on motives behind the acquisitions was collected from public sources including press reports, analyst reports, and company annual reports. However, for 261 deals, the motives behind the acquisition could not be ascertained with reasonable degree of accuracy, and had to be removed from our consideration, resulting in 312 deals for further analysis. Thomson SDC database mainly provided the deal characteristics data for the study, and the acquirer specific information was supplemented with data from the Capitaline database⁴ for variables with limited data on Thomson. The stock price data was also obtained from Capitaline database. Very limited stock price information was available for 49 deals. Some of these acquirers had their IPOs close to the announcement date, resulting in limited stock price information. Further, 15 deals were found to have related events close to the date of merger or acquisition announcement that could have influenced the CARs obtained

³ SDC PlatinumTM database is the industry standard for information on new issues, M&A, syndicated loans, private equity, project finance, poison pills, etc.

http://thomsonreuters.com/products_services/financial/financial_products/deal_making/investment_banking/sdc

⁴ Capitaline Plus provides fundamental and market data on more than 20,000 Indian listed and unlisted companies, classified under more than 300 industries, along with powerful analytic tools. Extensive data and analysis on every company profile, directors, more than 10-year financials (P&L, balance sheet, cash flow, consolidated financial data, segment data, forex data, R&D data, ratios, etc), quarterly results, ownership pattern, finished products, raw materials, share price data, directors' report, management discussion, notes to account, business news, corporate events, etc.

<http://www.capitaline.com/user/framepage.asp?id=1>

through event study. All these deals were removed from the dataset, which finally comprised 248 deals that were then subjected to further analysis.

Descriptive statistics and all the tables for the sample are provided in the Appendix 'A'. Table 1 provides the distribution of the sample by year of announcement. The annual numbers of acquisitions build up till 2007 which is the peak year for the sample, indicate that the data roughly corresponds to the latest merger wave in India. The average gain to the acquirer for the sample period is 2.21%, for the -3 to +3 event period.

Table 2 provides further descriptive statistics for other sample characteristics. Panel A shows that related deals form about two thirds of the sample, and are also associated with a higher average CAR compared to unrelated deals. A very high proportion of the sample (79%) comprises non cash mode of payment (Panel B), and these are associated with a lower average CAR (2.072%) compared to cash deals (2.727%). Panel C indicates that the developed economy targets form a large proportion of sample (86.29%). The average CAR for developed economy target is also higher at 2.497% compared to emerging economy target (0.398%). About 46% of the sample comprised deals with exploitation as the motive behind it (Panel D), and the average CAR associated with it is lower at 0.921% compared to 3.725% for deals with exploration motive. About 25% of the deals were mergers⁵, whereas the remaining comprised of acquisition of majority interest⁶, acquisition of assets⁷, and acquisition of certain assets⁸ (Panel E). The magnitude of CARs associated with mergers (2.425%) is similar to that of the rest of the deals (2.139%). About 59% of the sample comprised deals with private targets (Panel F). The average CAR associated with private targets is less (1.269%) compared to that of the rest of the sample (3.579%) including public targets.

⁵ Defined by SDC as deals where a combination of business takes place or 100% of the stock of a public or private company is acquired.

⁶ Defined by SDC as when the acquirer must have held less than 50% and be seeking to acquire 50% or more, but less than 100% of the target company's stock.

⁷ Defined by SDC as deals in which the assets of a company, subsidiary, division, or branch are acquired. This code is used in all transactions when a company is being acquired and the consideration sought is not given.

⁸ Defined by SDC as deals in which sources state that "certain assets" of a company, subsidiary, or division are acquired.

Content Analysis

The research technique of content analysis is used to make replicable and valid inferences from data to their context. It assumes that data gets communicated one way from the source and its surroundings to the analyst. Based on the knowledge of the environment of the data, the analyst constructs the context in which the data is analyzed. The analytical constructs allow the researcher to make inferences with respect to the context of the data. Compared to other techniques such as interviews, questionnaires and experiments, etc., content analysis is unobtrusive. It is readily amenable to unstructured data, and is sensitive to the context (Krippendorff, 1980).

The content analysis research design used in this study estimates the motives driving the acquisitions undertaken by Indian firms acquiring overseas targets, and is amongst the most basic compared to other content analysis research designs⁹. Textual data in the form of actual text of published news articles, analyst reports, annual reports, press releases, published interviews, etc. were collected for analysis of merger motives. Databases providing summaries of news articles were found to be comparatively less useful than full articles, as the motives behind mergers were not found in sufficient detail in summaries of press reports on the deals. A total of 1.19 MB of textual data was collected that provided insights into the merger motives of the Indian cross-border acquirers, excluding all such articles in which details regarding the deal were present but the information on motives behind merger or acquisition was not adequate. The sample comprised the full population of the deals for which data on merger motives was available in the public domain.

Thematic units in each physical unit of data were identified by their correspondence to structural definitions of merger motives. In order to avoid potential inaccuracies in classification of each deal into that motivated by exploration or exploitation, the vocabularies employed to identify the merger motives were drawn from the definitions originally used by March (1991), as applied to Dunning's (1993 and 2000) categorization of motivation behind FDI. A comprehensive list of such motives was prepared on this basis, and the same was also used for establishing the validity

⁹ Other research design types include those conducted to test the substitutability of one method by a content analysis, and designs to test hypotheses (Krippendorff, 1980).

of the classification. This ensured that the motives were distinguishable from each other on conceptual grounds, and could be readily contrasted with the remaining immaterial portion of the physical data. Towards this end, the coding procedure was designed, refined and applied.

The coding procedure comprised considering the different motives driving the cross-border mergers and acquisitions for Indian acquirers. The motives were considered from the perspective of exploration and exploitation, which has its genesis in the organizational learning literature (March, 1991). An explorative merger was identified by themes such as search, variation, risk taking, experimentation, flexibility, discovery and innovation, whereas an exploitative merger was recognized through themes like refinement, choice, production, efficiency, selection, implementation and execution (March, 1991).

Since their development in the area of organizational learning, these conceptual distinctions have been extended to a number of managerial contexts. Utolia, Maula, Keil and Zahra (2009) discuss applications of these constructs in various fields of enquiry besides organizational learning literature as evidence of their broad application over time: 'strategic management (e.g. He and Wong, 2004), organization theory (e.g. Holmqvist, 2004; Siggelkow and Levinthal, 2003), technology and innovation management (e.g. Brenner and Tushman, 2002, 2003; McGrath, 2001) and managerial economics (e.g. Ghemawat and RicartCosta, 1993)'.

From the exploration-exploitation perspective, the market seeking FDI/ acquisition and the rationalized or efficiency seeking FDI/ acquisition could be considered representative of an exploitative motive, whereas the resource seeking FDI/ acquisition and strategic asset seeking FDI/ acquisition could be termed as explorative in motive. From the broad definition of these types of motives behind a cross-border acquisition, we further define these in detail as follows:

- A. A market seeking acquisition has been defined as an acquisition in which the acquirer seeks to:
 - i) Expand geographically- This would entail
 - a. Entering a new country, geography/ market, or establish a toe-hold or beach-head in a market,
 - b. Motives relating to gaining a slice of the global market, or a global footprint, seeking growth or to expand market share,

- c. Motives relating to efforts to gain additional revenue or top-line growth through cross-border acquisitions.
- B. A rationalized or efficiency seeking acquisition has been defined as an acquisition in which the motive is to:
 - i) Product Market rationalization- Acquisition motives that seek to
 - a. Enhance efficiencies through entry into a new segment, get established or expand in an existing segment, gain depth in existing segment,
 - b. Access to target's products or to diversify into a new business vertical,
 - c. Motives to enhance/extend current product portfolio, address gaps in product line.
 - ii) Value chain augmentation-
 - a. Gain a presence across the value chain for that industry,
 - b. To gain an ability to provide end to end capability,
 - c. To strengthen supply chain by undertaking process improvements.
- C. A natural resource seeking acquisition has been defined as an acquisition in which the motive comprises:
 - i) Raw materials- Acquisition motive to gain access to raw materials (including cheaper labor) to hedge against price fluctuations.
- D. A strategic asset seeking acquisition has been defined as an acquisition in which the acquirer tries to obtain competitive advantages through access to strategic assets. These assets could be tangible or be embedded in the context of the acquisition. Specific examples would be as follows:
 - i) Strategic Assets would include:
 - a. Technology assets, patents, trademarks, domain expertise, licenses and other regulatory benefits like tax incentives,
 - b. Access to target's customer base (we assume that market access motive is different from gaining access to established customer base of the target), vendor base, marketing capabilities and existing distribution channels, manufacture close to customer base,
 - c. Specialized managerial talent- local /global, industry experience,

- d. Brands,
 - e. Scalability, globally in particular,
 - f. Process knowledge/ capabilities for research, development, manufacturing and distribution.
- ii) Strategic Context: This category would include motives relating to
- a. Capacities (utilizing overcapacities, creating redundancies etc),
 - b. Market power,
 - c. Capability acquisition,
 - d. Forward and backward integration,
 - e. Learning (including learning about cross-border M&A),
 - f. Leveraging distressed target condition to advantage and any advantage(s) accruing through leveraging acquirer's capabilities with respect to the target.

These dimensions regarding merger motives were arrived at after firstly setting them up a priori, and modifications subsequent to discussions with other scholars. Written recording instructions regarding the dimensions were made available to the coders and instructions were jointly interpreted and modified. All attempts were made to ensure that the dimensions were unambiguous and mutually exclusive with no overlaps, yet exhaustive of the various motives driving Indian acquirers overseas.

During this phase of the content analysis, the tests for reliability of the research design were carried out. The reliability of the judgment based data depends at the outset on the adequacy of the underlying classification scheme, and the operational definition of the coding categories (Perreault and Leigh, 1989). About 20% of the deals were coded by different coders and the results were analyzed to measure the inter-rater reliability of the classification of motives behind the deals in the sample, and an inter-judge contingency table was constructed (Table 3). In the cross tabulation of the two judges codes, the coding categories were aligned such that the diagonal cells in the matrix represent the judgments on which both the coders agree, and the frequencies in the off-diagonal cells indicate the extent and the nature of disagreement. This was used to calculate Cohen's Kappa (Cohen, 1960), the widely used measure of inter-judge reliability in behavioral science literature (Perreault and Leigh, 1989). The inter-rater agreement

obtained for the sample was 73%, and the Kappa was determined to be 0.61 with a z value of 3.654. The significance of Kappa against the null hypothesis that ‘there exists no agreement amongst judges other than chance’ has not been considered important compared to the value of Kappa in literature. In this case, the value of Kappa obtained is substantial (Landis and Koch, 1977), permitting further analysis, which was carried out using the first author’s ratings.

Event Study methodology

The event study methodology followed in this paper has been mainly drawn from Patell’s (1976) study of stock price behavior and Campbell, Lo and MacKinlay’s (1997) exposition regarding econometric methods in financial economics that includes event study methodology. Broadly, the steps involved in an event study comprise defining an event that provides new information to the market, putting forth a theoretical explanation for the market response, identification of the set of firms experiencing this event along with identifying the event date and defining the event window, eliminating the firms that have other relevant events overlapping the event window, computation of abnormal returns for the event window, and testing the null hypothesis that the event had no impact on share prices, that is, cumulative abnormal returns (CAR) do not differ significantly from zero (McWilliams and Siegel, 1997).

This technique identifies the impact of a specific event upon a security’s rate of return (Fama, Fisher, Jensen and Roll, 1969). It is based upon the assumption of capital markets being semi-strong form efficient. The security prices at any point in time incorporate all publicly available information, and the impact of any new public information gets factored into the security prices instantaneously. It came into being on account of dissatisfaction of scholars with accounting data with respect to its difficulty in defining substantively, their ‘lack of “meaning”’ and thus their doubtful utility (Ball and Brown, 1968). The method also focuses on the stock prices rather than accounting data as it tries to avoid influences of managerial choices regarding accounting procedures and any manipulation of data (Bromiley et. al., 1988). Other than the market efficiency assumption, the event study methodology also assumes that the market did not anticipate the event and that there are no confounding events close to the event under considerations that could influence the stock market valuations of the focal firm (McWilliams and Siegel, 1997).

In this study, daily stock price data of the Indian cross-border acquiring firms from the sample was used to investigate the returns obtained after such acquisitions. The event date was defined as the date of first public announcement of such foreign acquisition by the Indian firm. The dates obtained from the databases were confirmed with news reports to ensure that no formal public reference to the event had taken place earlier.

Amongst the various models currently in use based on event study methodology, the market model was chosen. This model considers a single factor- the market returns, which relates to the return obtained for any given security. The event date under consideration is defined as the date on which the news regarding acquisition was made public for the first time.

The expected rate of return on share price of a firm 'i' on day 't' is calculated as follows (McWilliams et. al., 1997):

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_i, \text{ where,}$$

R_{it} = Rate of return on share price of firm 'i' on day 't',

R_{mt} = Rate of return on a market portfolio of stocks,

α_i , β_i = the intercept term and systematic risk coefficient of stock 'i', respectively,

ε_i = the error term with $E(\varepsilon_i) = 0$

The equation above allows us to calculate the expected returns for the stock for the forecast period. The abnormal returns for the firm 'i' can be calculated as follows:

$$AR_{it} = R_{it} - (a_i + b_i R_{mt}), \text{ where,}$$

AR_{it} = Abnormal return for the 'ith' firm at time 't',

a_i and b_i = OLS parameter estimates obtained from regression of R_{it} on R_{mt} for the estimation period.

The estimation period for this study was considered over a period of 30 to 365 days prior to the announcement date, in order to take care of any change in security prices on account of leakage of information prior to announcement. Daily stock price data for the year preceding the date of

announcement was taken as the estimation window. Gaps in the data (like due to holidays) were ignored for the purpose of the study. There was no overlap between the estimation window and the event window, as the event returns could unduly influence the normal returns in such a case (MacKinlay, 1997).

The abnormal return for each firm over the forecast period was standardized, and a cumulative abnormal return calculated for the firm over the same period over different forecast periods in the short term (-1 to +1, -3 to +3, -5 to +5 and -11 to +11 days from the date of announcement in this study) to facilitate robustness checks. The average CAR for the sample of acquirers was also calculated along with 't' statistic and a z statistic for non-parametric sign test to check for significance.

A SAS program was developed for the calculation of acquirer abnormal returns associated with each deal, and significance testing of the CARs.

The Model

The regression model estimated to determine the cumulative abnormal returns of Indian cross-border acquirers is as follows:

$$CAR_i = \alpha_i + \beta_{1i}(Merger\ Motive) + \beta_{2i}(Acquirer\ characteristics) + \beta_{3i}(Deal\ Characteristics) + \varepsilon_i$$

Merger motives were incorporated in the model as a dummy variable which takes a value of 1 for the exploitation motive, and 0 otherwise. The control variables addressing acquirer characteristics and deal characteristics were drawn from current literature on short term event studies of cross-border acquisitions. Sequential regression was employed to determine whether additional variables in the model enhanced its explanatory power. The acquirer characteristics comprised of acquirer age (Sapienza, Antio, George and Zahra, 2009 and Gubbi et. al., 2009), size (Uhlenbruck, Hitt and Semadeni, 2006 and Finkelstein and Haleblian, 2002), leverage (Haleblian, Kim and Rajagopalan, 2006), free cash flow (Moeller and Schlingemann, 2005), market capitalization (Gubbi et. al., 2009), relative size (Moeller and Schlingemann, 2005), profitability ratios (Gubbi et.al., 2009; Haleblian and Finkelstein, 1999 and Markides and Ittner, 1994) and market to book ratio (Servaes, 1991 and Moeller, Schlingemann and Stulz, 2004). The

deal characteristics that have been associated with CARs in literature include industry relatedness usually at two digits of SIC specification, same industry at 4 digits of SIC specification (Haleblian and Finkelstein, 1999; Markides and Ittner, 1994; and Uhlenbruck, Hitt and Semadeni, 2006), mode of payment (Moeller and Schlingemann, 2005; Haleblian and Finkelstein, 1999; and Haleblian, Kim and Rajagopalan, 2006), form of deal in terms of merger or acquisition of assets, and private or public nature of target (Moeller, Schlingemann and Stulz, 2004 and Gubbi et. al., 2009). Industry and country effects (Markides and Ittner, 1994) were also included in the model in addition to time in order to account for changes in macroeconomic environment in which deals took place. The SPSS REGRESSION was used to analyze the data sample and evaluate the underlying model assumptions.

The independent variables were transformed to reduce the number of outliers, and to improve the normality, linearity and homoscedasticity of residuals (Tabachnick and Fidell, 1996). A natural log transform of the continuous control variables was used for the purpose.

The firm age variable has been considered in literature in terms of learning and capabilities perspective, as the firm's age at internationalization may have an impact upon survival and growth of the firm. With age, the firms develop routines, relationships, and status necessary to efficiently engage in the social and economic exchanges critical to their survival. Alternatively, from structural inertia view, firms have limited capability to respond to environmental changes that could adversely affect their survival with age (Hannan and Freeman, 1984; Sapienza, Autio, George and Zahra, 2005; Gubbi et.al., 2009). A positive relationship of firm age with CAR has been noted in literature, but findings are not robust. For our study firm age is defined as the difference between the year of deal announcement and the year of incorporation of the firm (Gubbi et. al, 2009).

Relative size of the target firm in terms of acquirer firm has been found to be positively correlated with acquirer returns (Asquith, Bruner and Mullins, 1983). Measured as the sales of the target divided by the sales of the acquirer, Markides and Ittner (1994) also find a similar relationship for cross-border acquisitions. Our study also employs the same measure for relative size. The target net sales data comprised a large proportion of missing values, constraining our final analysis.

The mode of payment has also been found to be associated with acquirer post-merger returns—usually cash offers have been found associated positively to acquirer returns (Franks and Harris, 1989; Travlos, 1987; Markides and Ittner, 1994). A stock offer implicitly sends a signal to the market that the acquirer management perceives that their stock is overvalued. Markides and Ittner (1994) find that in contrast to domestic acquisitions, mode of payment is not significantly associated with acquirer abnormal returns. In this study, a dummy for cash deals has been introduced to control for the effect of mode of payment on post-merger acquirer returns.

The growth opportunities before the target firm also play an important role in explaining the acquirer returns. Measured in terms of free cash flow¹⁰ available to the acquirer and the market to book ratio¹¹, empirical support for association with acquirer abnormal returns is mixed (Haleblian and Finkelstein, 1999; Moeller and Schlingemann, 2005).

We also control for acquirer size, as it is perceived that strategic choices made by firms need to be controlled (Gubbi et. al., 2008). As the sample comprises a significantly higher number of firms from IT, we have used net sales as its measure rather than the more commonly used average total assets.

Past performance of the acquirer has been found to be negatively associated with post-merger cross-border acquirer abnormal returns (Markides and Ittner, 1994; Gubbi et. al., 2008). In this study, the acquirer ROE for the year prior to the acquisition has been used as a measure for acquirer past performance.

The type of target, whether public or private, has also been found to be associated with acquirer abnormal returns (Capron and Shen, 2007; Gubbi et. al., 2008). Acquiring a private target is associated with significantly positive returns for cross-border acquisitions (Moeller and Schlingemann, 2005). However, no significant relation was found for cross-border acquisitions by Indian acquirers (Gubbi et. al., 2008).

¹⁰ Defined as operating income before depreciation minus interest expense on debt, income taxes, and preferred and common dividends (Lehn and Poulsen, 1989; Moeller & Schlingemann, 2005)

¹¹ Defined as the book equity and market equity ratio in the fiscal year prior to the acquisition (Moeller & Schlingemann, 2005)

Acquirer abnormal returns have been associated positively with related acquisitions determined at 2 digit of SIC codes of acquirer and target industries (Markides and Ittner, 1994). Similar results have also been reported from study using accounting based post acquisition performance measures (Haleblian and Finkelstein, 1999). In our study, we also ascertain relatedness between acquirer and target industries at two digits of SIC code. Additionally, we also introduce a variable to account for mergers and acquisitions in same industry, determined at four digits of acquirer and target industry SIC code.

The acquirer firm leverage, and as a measure of market power, acquirer market capitalization has been incorporated in the model (Gubbi et. al., 2008). Further, in order to incorporate the impact of macroeconomic events influencing acquirer abnormal returns, time dummies were introduced in the model. Also, to investigate the impact of level of development of the target country of origin, dummies were introduced for Indian acquirers targeting firms in economically developed economies. A separate dummy was introduced to investigate the impact of Indian firms acquiring firms in US and UK. Finally, in order to ascertain the impact of acquirer industry, separate industry dummies were incorporated in the model for manufacturing and services industries- the data comprises almost all deals emanating from these two industries.

The model developed here has considered the main variable of interest as the motive driving the acquisition, Other variables drawn from extant literature that have been included consist of acquirer characteristics, namely age, size, free cash flow, market capitalization, relative size, profitability and market to book ratio. The deal characteristics included in the model for analysis are industry relatedness, same industry, mode of payment, form of deal, public or private nature of target, country and industry effects. In the next section, the results obtained from application of the model to our data set have been presented and discussed.

Empirical results

Data analysis was aimed at ascertaining whether short term emerging economy acquirer CARs were influenced by the motives driving the merger. The abnormal returns and cumulative abnormal returns for the 11 day period around the announcement date of the sample of

acquisitions are presented in Table 4. The pattern of normal and abnormal returns around the announcement date shows that in the period leading to the announcement date, the abnormal returns are very close to zero. The abnormal returns are highest on and around the announcement date, which is a result consistent with the assumption of efficient capital markets— the new information is quickly factored into the firm stock price.

The CARs for different event windows has been provided in Table 5. The average CAR for the -3 to +3 day event period is 2.20% at 1% significance level. The results for the other event windows are similar, indicating that the cross-border acquisitions made by Indian firms creates value for the acquirers in the short run. The findings are consistent with other results in literature that show significant value creation for cross-border acquirers, in contrast to zero or negative acquirer CARs for domestic acquisitions (Morck and Yeung, 1992; Markides and Ittner, 1994). However, these figures for acquirer gains are not as high as that of target firms usually reported in literature.

In order to explain the variance in CARs of Indian cross-border acquirers obtained from the event study, OLS regressions are carried out on the explanatory variables obtained from literature. Table 6 provides the correlations and their level of significance for the continuous variables along with their mean values and standard deviation. The CAR for the (-3 to +3) period are positively correlated to acquirer age, leverage, acquirer market to book ratio and acquirer market capitalization. Variables with negative correlations with CAR are acquirer sales and acquirer free cash flow.

Table 7 provides the results for the sequential regression in terms of unstandardized coefficients, associated standard errors for the variables and their significance levels. The first model considers all the deals for which data is available and introduces the merger motive variable. Model 2 incorporates the dummy variables other than time and industry into the model. Model 3 adds the continuous variables suitably transformed, and as there are gaps in the data, the sample size reduces to 208. Models 4 and 5 incorporate the time and industry dummies into the model respectively to ascertain the role of these variables in explanation of the CARs.

In the first model, the introduction of merger motive in the model results in adj. $R^2 = 0.029$, $F = 8.364$, and $p < 0.001$. With the dummy variables other than time and industry incorporated in the model, the adj. R^2 improves to 0.043, and $F = 2.393$. Introduction of the continuous variables in the next model results in adj. $R^2=0.102$, and $F= 2.673$. In the full model, the addition of time dummies and industry dummy further enhanced the adj. R^2 to 0.111 and F value to 2.236, for a sample of 208 deals.

Along all the models, the exploitation motive dummy is significantly negative. Compared to the mergers and acquisitions carried out with an exploration motive, the exploitation motive is associated with significantly lower returns in the short run. This indicates that the Indian capital markets have, on an average, rewarded the cross-border acquisitions by Indian acquirers, and short-term returns associated with the deals conducted with an exploration motive significantly outstrips those carried out with exploitation motive. To control for multicollinearity, the market capitalization variable was excluded from the full model after its variance inflation factor was found to be high (14.66).

Amongst the control variables, industry firm age was not found to be significantly related to the acquirer CARs. The older firms as well as the younger firms do not differ significantly from one another in terms of post-merger value creation. The mode of payment was also not found to be associated with the CARs in a significant manner. A cash mode of payment may not indicate that the acquirer believes its stock to be undervalued. It could also indicate that the acquirer wants to close the deal quickly, or may need to avoid procedural delays that might be longer for cross-border acquisition involving a non-cash mode of payment compared to domestic acquisitions. The slack resources available with the acquirer are also not significantly associated with post-acquisition returns to the acquirer. It could be indicative of managers' preference towards making risky investments rather than pay out the money to the shareholders. However, as seen from overall sample CARs for different event windows, cross-border acquisitions by Indian acquirers are expected to be value enhancing in general. An interplay of these forces could result in lack of any significant association between slack resources and post-merger value creation for the acquirer.

The acquirer market to book value is significantly negatively associated with acquirer CARs, across all models. As a measure of managerial performance (Servaes, 1991), a high market to book ratio is usually associated with higher returns to the acquirer. However, in this sample of firms from India, an emerging economy, a high market to book ratio could be associated with growth opportunities available to the acquirer in the home market, and not with a high level of managerial performance. Under such circumstances, the market may perceive cross-border acquisitions as more risky compared to other opportunities available to the acquirer, resulting in lower value creation for such acquisitions.

A private target is consistently associated with negative post-merger value creation in the short run. Risk perception of such targets would be higher in the market, compared to public targets, where the level of information asymmetry would be comparatively lower.

Amongst the controls for time, the year dummy for the 2003 period is significantly positive across the models. This year corresponds to a trough in between two merger waves, with the smallest number of acquisition frequency in the sample. In a macroeconomic environment not encouraging a large number of deals, the targets that were acquired would be more diligently selected, evaluated and assimilated, reflected in a higher CAR associated with the deals.

To summarize, the Indian firms undertaking cross-border acquisitions are associated with significant value creation in the short run, and those acquisitions undertaken with exploration motive create significantly higher value compared to those with an exploitation motive. This phenomenon influences the older and younger firms alike. However, firms with evidence of growth opportunities in the home market are penalized by the market for undertaking overseas acquisitions.

Industry Effect

All the acquisitions fall mostly in the manufacturing sector (165 deals at 2 digit SIC codes 20 to 39) or the services sector (84 deals at 2 digit SIC codes 70 to 89). Six deals each lie in the transportation and public utilities sector (SIC code 40 to 49) and finance, insurance and real estate sector (SIC code 60 to 67). One deal each lies in the mining sector (SIC code 10 to 14) and construction sector (SIC code 15 to 17). A detailed description of the distribution by industry and

associated CARs is provided in Table 8. Motor vehicles and accessories industry sub-group exhibits the highest average CAR for (+3 to -3) days event period at 4.26%, and computer related services industry sub group is amongst the lowest CARs at 0.64%.

Incorporation of the industry dummies at different levels of aggregation were tried out in the different models, but none of the industry groupings dummies demonstrated a significant difference from one another. Only the broadest classification of industry groups- manufacturing and services- have been reported in the regression model 5 in Table 7- there is no significant difference between the CARs of the two groups.

Country effect

The sample distribution by target country is provided in Table 9. The dataset comprises a large proportion of deals targeting US and UK. Overall, the data is skewed in favor of developed economies rather than emerging economies. Both these countries have a positive average CAR of 2.378% and 4.973% respectively.

The target country was classified into 'developed' and 'emerging' using the list of OECD countries identified as belonging to the high income group as per the World Bank classification and the list of 64 countries identified as emerging economies by Hoskisson, Lau, Eden and Wright (2000), respectively. The India-Developed acquisitions were introduced as a dummy, but did not exhibit any significant difference for the rest of the acquisitions with respect to their CARs. An extra dummy was created for acquisitions with target firms located in US and UK and introduced in the model (Table 7). The targets located in these two countries demonstrated significantly higher CARs compared to the targets located in emerging economies. The other developed economy acquisitions by Indian acquirers did not exhibit CARs significantly different from that in emerging economies. An examination of the results show that the maximum share holder value creation for Indian cross-border acquirers was associated with an exploration motive and a target located in the US or UK, whereas the least value creation was associated with an exploitation motive and a target located in other developed countries and emerging economies.

Conclusion

While empirical evidence on cross-border acquisition value gains is mixed, with some studies reporting significant value creation for acquirers (Morck and Yeung, 1991; Markides and Ittner, 1994; Gubbi et. al., 2008), there are findings of zero or negative value creation by acquirers (Datta and Puia, 1995; Eun et. al., 1996; Moeller and Schlingemann, 2005). The logic of merger motives behind the acquisitions influencing the value created has only been addressed in a cursory manner, if at all in empirical M&A literature. Our study tries to address has tried to address an articulated gap in the nascent literature on cross-border mergers and acquisitions involving the emerging economy acquirers— the implications of motives driving the deal on its valuation implications for the acquirer (Gubbi et. al., 2008).. The contribution that this study makes to literature lies in meeting this gap through analysis of the impact of merger motives as articulated in public domain on the value created by emerging economy acquiring firms through cross-border M&A.

Indian acquirers acquiring firms overseas were found to create value in the short run for the full sample. Evidence was obtained that exploration motive was associated with higher CARs compared to the exploitation motive. Market seeking acquisitions and the rationalized or efficiency seeking acquisitions created value, but significantly lower than the acquisitions associated with strategic asset seeking acquisitions and acquisitions taking place in a strategic context.

Further, our study extends March's (1991) argument on exploration and exploitation to the field of merger motives. The extension of these constructs from organizational learning literature to a much wider managerial context is prevalent (Utolia, Maula, Keil and Zahra, 2009; He and Wong, 2004; Holmqvist, 2004; Siggelkow and Levinthal, 2003; Brenner and Tushman, 2002, 2003; McGrath, 2001 and Ghemawat and RicartCosta, 1993). The application of the constructs to cross-border M&A has also been touched upon by Wright, Filatotchev, Hoskisson and Peng (2005) in their discussion on M&A in the context of emerging economies. The findings in this paper add credence to the notion that these constructs can be meaningfully utilized in empirical M&A research.

The findings of our study can be extended through similar studies in different institutional settings. Similar analysis of deals in different countries can lead to a more complete understanding of the role of different motives and their value creation capacity in different settings.

Even though the short term event study methodology as a measure of performance is itself usually considered reliable (Kale et. al., 2002; Gubbi et. al., 2008), some scholars suspect that it gauges ‘the collective cognitive heuristic, the overall market “sentiment” about how a given typology of acquisitions should perform’, which is different from actual acquisition performance. To that extent, the CAR measures the ‘market expectation’ of firm performance, and ‘not firm performance per se’ (Zollo et. al., 2008). To that extent, the findings of the study are constrained by the assumptions of the short window event study methodology.

To conclude, our study has added an important strand of empirical results to the nascent field of cross-border M&A in an emerging economy context using a multi-theoretic perspective (internationalization, strategy and organizational learning lenses). Some of the findings have corroborated earlier findings, while others have complemented them. In doing so, it has also raised further research questions— what are the institutional contexts where either exploration or exploitation motive behind an acquisition generate value for the acquirer, the target, or for the combined entity? Are the findings in the study sustained over a longer period of time? Further studies using cross-sectional and longitudinal samples could help extend this study.

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APPENDIX 'A'

Table 1

Acquisition frequency distribution by year of deal announcement

Year	Av CAR (-3 to +3)	Std. Deviation	N
2002	0.0237	0.0449	9
2003	0.0698	0.1005	23
2004	0.0106	0.0669	19
2005	0.0105	0.0576	41
2006	0.025	0.078	56
2007	0.0283	0.0748	57
2008	0.0005	0.0832	43
Total	0.0221	0.0772	248

Table 2**Sample Frequency Distribution and CARs (+3 to -3) for different Sample Characteristics****Panel A: Relatedness**

	Av CAR	CAR Std. Dev	N	% of Total
Unrelated	0.01612	0.07643	82	33.06
Related	0.02505	0.07768	166	66.94
Total	0.0221	0.07723	248	100

Panel B: Mode of Payment

	Av CAR	CAR Std. Dev	N	% of Total
Non- Cash	0.02072	0.07957	196	79.03
Cash	0.02727	0.06814	52	20.97
Total	0.0221	0.07723	248	100

Panel C: Level of Development of Target Country

	Av CAR	CAR Std. Dev	N	% of Total
India-Emerging	0.00398	0.07217	34	13.71
India-Developed	0.02497	0.07778	214	86.29
Total	0.0221	0.07723	248	100

Panel D: Merger Motive: Exploration/ Exploitation

	Av CAR	CAR Std. Dev	N	% of Total
Exploration motive	0.03725	0.07594	114	45.97
Exploitation motive	0.00921	0.07624	134	54.03
Total	0.0221	0.07723	248	100

Panel E: Form of the deal: Merger/ Acquisition

	Av CAR	CAR Std. Dev	N	% of Total
Acquisition	0.02139	0.08222	187	75.4
Merger	0.02425	0.05992	61	24.6
Total	0.0221	0.07723	248	100

Panel F: Type of Target Firm: Private/ Non Private

	Av CAR	CAR Std. Dev	N	% of Total
Non Private Target	0.03579	0.07883	101	40.73
Private Target	0.01269	0.07493	147	59.27
Total	0.0221	0.07723	248	100

Table 3**Inter Rater Contingency Table***

		Judge 1					
CODED CATEGORIES		Efficiency Motive	Market Motive	Strategic motive	Access to Natural Resource motive	Others/ Not Clear	P _{iB}
Judge 2	Efficiency Motive	4(0.066)	0	0	0	0	4(0.066)
	Market Motive	1(0.016)	14(0.230)	5(0.082)	0	0	20(0.328)
	Strategic motive	2(0.033)	5(0.082)	20(0.328)	0	1(0.016)	28(0.459)
	Access to Natural Resource motive	0	0	1(0.016)	0	0	1(0.016)
	Other/ Not Clear	1(0.016)	0	0	0	7(0.115)	8(0.131)
	P _{iA}	8(0.1311)	19(0.311)	26(0.426)	0	8(0.131)	61(1.000)

*Figures in brackets represent proportions

Table 4

Abnormal Returns and CARs for the period -11 to +11 days from the date of announcement

Day	Abnormal Returns	CAR
-11	-0.00058	-0.00058
-10	0.00004	-0.00054
-9	-0.00228	-0.00224
-8	-0.00127	-0.00355
-7	-0.00292	-0.00418
-6	-0.00101	-0.00393
-5	-0.00052	-0.00153
-4	-0.00057	-0.00109
-3	-0.00108	-0.00165
-2	0.00375	0.00267
-1	0.00218	0.00593
0	0.01874	0.02092
1	0.00496	0.0237
2	0.01597	0.02093
3	0.00494	0.02091
4	0.01499	0.01993
5	0.00018	0.01517
6	0.01211	0.01229
7	0.00175	0.01385
8	0.01365	0.0154
9	0.00077	0.01443
10	0.01387	0.01464
11	-0.00113	0.01274

Table 5**Average CARs and their significance for different event windows**

Event Window	Av. CAR	t stat	Sign test stat (z)
CAR (-1,+1)	0.021	13.0586	4.75
CAR (-3,+3)	0.022	14.2136	3.27
CAR (-5,+5)	0.0191	12.3291	2.77
CAR (-11,+11)	0.0127	11.7447	1.79

Table 6**Correlations and sample descriptive Statistics**

	Mean	Std. Dev	N	CAR (-3 to +3)	Ln Acq Age	Ln (NET SALES)	Ln (Free Cash Flow)	Ln (1+ AvAcq Leverage)	Ln (MARKET CAP)	Ln (Acq Market To Book)	Ln (1 + ROE)
CAR(-3to+3)	0.022	0.077	248	1							
Ln Acq Age	3.193	0.655	247	0.026	1						
Ln (NET SALES)	6.218	1.981	246	-0.089	0.352**	1					
Ln (Free Cash Flow)	4.806	1.558	210	-0.092	0.347**	0.719**	1				
Ln(1+ Av Acq Leverage)	0.414	0.365	246	0.039	0.111	0.069	-0.084	1			
Ln(MARKET CAP)	7.13	1.946	245	-	0.175**	0.256**	0.777**	0.811**	-0.151*	1	
Ln (Acq Market To Book)	2.951	1.811	244	-	0.171**	0.206**	0.591**	0.702**	-0.067	0.889**	1
Ln (1+ ROE)	0.208	0.146	245	-0.063	-0.026	0.268**	0.117	0.077	0.236**	0.320**	1

Table 7**Results of OLS models for Cumulative Abnormal Returns and Merger Motives for Indian Cross-border acquirers**

Dependent Variable: CAR (-3 to +3); Deals with related events excluded

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Intercept	0.037 (0.007)***	0.026 (0.018)	0.017 (0.036)	-0.009 (0.040)	0.005 (0.041)
Exploitation motive dummy	-0.028 (0.010)***	-0.024 (0.010)**	-0.030 (0.010)***	-0.030 (0.011)***	-0.030 (0.011)***
Developed Target Nation-US & UK		0.026 (0.015)*	0.026 (0.016)	0.030 (0.016)*	0.035 (0.017)**
Developed Target Nation-Non US & UK		0.010 (0.016)	0.015 (0.016)	0.020 (0.016)	0.023 (0.016)
Related Industry Dummy		0.003 (0.012)	0.006 (0.013)	0.007 (0.013)	0.008 (0.013)
Same Industry Dummy		0.007 (0.012)	-0.007 (0.014)	-0.008 (0.014)	-0.009 (0.014)
Mode of Payment: Cash		0.005 (0.012)	0.006 (0.012)	0.005 (0.012)	0.006 (0.012)
Form of Acquisition: Merger		0.003 (0.011)	0.003 (0.012)	0.002 (0.012)	0.001 (0.012)
Private Target		-0.023 (0.010)**	-0.036 (0.011)***	-0.032 (0.011)***	-0.030 (0.011)***
Ln Acq Age			0.008 (0.009)	0.007 (0.009)	0.006 (0.009)
Ln Acq Leverage			0.005 (0.015)	0.004 (0.015)	-0.007 (0.017)
Ln ROE			0.047 (0.042)	0.054 (0.042)	0.057 (0.042)
Ln Acq Market to Book value			-0.013 (0.005)***	-0.013 (0.005)**	-0.012 (0.005)**

Continued...

Table 7 (Continued)

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Ln Acq Net Sales			0.003	0.003	0.002
			(0.004)	(0.004)	(0.004)
Ln Acq Slack			0.001	0.002	0.002
			(0.005)	(0.006)	(0.006)
2002 Dummy				0.011	0.014
				(0.029)	(0.029)
2003 Dummy				0.043	0.045
				(0.022)*	(0.022)**
2004 Dummy				-0.006	-0.009
				(0.022)	(0.022)
2005 Dummy				0.020	0.019
				(0.017)	(0.017)
2006 Dummy				0.026	0.027
				(0.016)	(0.016)*
2007 Dummy				0.022	0.022
				(0.016)	(0.015)
Industry: Services					-0.020
					(0.013)
F Value	8.364	2.393	2.673	2.216	2.236
Adj R Square	0.029	0.043	0.102	0.105	0.111
N	248	248	208	208	208

Table 8**Descriptive Statistics: Sample distribution by Industry**

Industry	SIC Codes	Average CAR (+3 to -3)	CAR Std. Dev	N
Food & Beverages and Textiles	2063-2393	0.0289	0.0925	21
Chemicals	2812-3089	0.0223	0.0794	32
Pharmaceutical Preparations & Biological Products	2834, 2836	0.0156	0.0632	42
Steel Works, Foundaries, Forgings, etc.	3312-3462	0.028	0.0621	14
Motor Vehicles, accessories, etc.	3711, 3714, 3592	0.0426	0.1009	16
Other Manufacturing	2671, 2791, 3291, 3511-3559, 3593- 3691, 3845-3965	0.038	0.08	30
Transportation & public Utilities, Finance, Insurance & Real Estate, Mining & Construction	1311, 1541, 4212- 4833, 6000, 6719	0.0054	0.0776	12
Computer Software, Programming, Integrated System Design	7371, 7372, 7373	0.028	0.0559	38
Computer related services, etc.	7375-7389	0.0064	0.1007	28
Other services	7011, 7323, 7812- 8748	-0.0009	0.0666	15
Total		0.0221	0.0772	248

Table 9**Acquisition frequency distribution by target country and associated CARs**

Target nation	Av CAR (+3 TO -3)	CAR Std. Dev	N	% of Total
Australia	0.03928	0.04879	6	2.28
Belgium	-0.01871	0.16481	2	0.76
Bermuda	0.1402	.	1	0.38
Bosnia	0.04271	.	1	0.38
Brazil	0.13626	.	1	0.38
Canada	-0.00579	0.10081	9	3.42
China	-0.00695	0.09668	4	1.52
Colombia	-0.05894	.	1	0.38
Czech Republic	0.00505	0.07282	2	0.76
Denmark	0.04547	0.03141	2	0.76
Egypt	-0.01163	0.00367	2	0.76
Finland	0.02631	0.03767	2	0.76
France	0.02922	0.08548	8	3.04
Germany	0.02581	0.06449	22	8.37
Hong Kong	0.02289	0.03675	2	0.76
Indonesia	-0.07063	0.00992	2	0.76
Ireland-Rep	0.061	0.06413	2	0.76
Israel	0.02397	.	1	0.38
Italy	0.00512	0.07133	4	1.52
Japan	-0.03556	.	1	0.38
Malaysia	-0.03611	.	1	0.38
Mauritius	-0.00385	.	1	0.38
Mexico	0.01409	.	1	0.38
Monaco	-0.02533	.	1	0.38
Netherlands	-0.00956	0.10635	3	1.14
Philippines	-0.04794	.	1	0.38
Portugal	0.0024	0.05351	2	0.76
Romania	0.01659	.	1	0.38
Russian Fed	0.02842	0.05711	2	0.76
Singapore	0.00698	0.0731	6	2.28
South Africa	-0.02239	0.03747	7	2.66

Continued...

Table 9 (Continued)

Acquisition frequency distribution by target country and associated CARs

Target nation	Av CAR (+3 TO -3)	CAR Std. Dev	N	% of Total
South Korea	-0.00532	0.05325	2	0.76
Spain	-0.02317	0.03686	4	1.52
Sri Lanka	0.04029	0.01278	3	1.14
Sweden	0.01285	0.09399	4	1.52
Switzerland	-0.04531	.	1	0.38
Thailand	0.06954	0.14599	4	1.52
United Kingdom	0.04973	0.08666	43	16.35
United States	0.02378	0.07897	82	31.18
Utd Arab Em	-0.02865	0.02523	2	0.76
Uzbekistan	-0.0204	.	1	0.38
Zambia	-0.0138	.	1	0.38
Total	0.0221	0.07723	248	100