# International Acquisitions by Indian Firms: Implications for Research on Emerging Multinationals

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*The rising phenomenon of cross-border acquisitions by emerging multinational companies from India provides a real time opportunity for scholars to unearth its distinctive character. Yet, going by the limited scholarly material documenting this phenomenon, there appears to be gap between practice and academia. The authors attempt to spur the imagination of the research community by revealing several anomalies in the broad pattern of data visible in cross-border acquisitions by Indian firms and the many merits of exploring its nuances. Using the Indian case as an exemplar of emerging economy context and analyzing some of the stylized aspects of the available data,the paper uncovers the numerous research questions that arise and thus provide an agenda for future research.*

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## Introduction

The emergence of Indian multinationals in the past one decade or so has been a bright spot of economic liberalization and globalization. This distinctive phenomenon of globalization in the twenty first century is accompanied by India emerging as one of the top destinations for foreign direct investment (FDI), as well as a steadily increasing source of FDI in other economies. The rapid growth of the Indian economy has bolstered the confidence of domestic enterprises to go across borders with relatively aggressive investments, resulting in a spate of acquisitions in the last decade. The acquisition by Tata Steel, of the Anglo-Dutch major Corus for about US$ 12 billion to jump from 56$^{th}$ to 5$^{th}$ largest steel company in the world, or for that matter Bharti Airtel's recent attempt to acquire a large stake in South African telecom services giant MTN at over US$ 20 billion are just a few indications of the audacious approaches taken by some of the Indian firms to leap to the hallowed status of emerging multinationals. The rapidity and ferocity with

which a number of Indian firms across a spectrum of industries have been embracing the world market, taking bold and decisive steps to emerge as significant international players, has captivated the world of practice as well as academics.

**India provides the appropriate setting being the second largest and the second fastest growing emerging economy in the world**

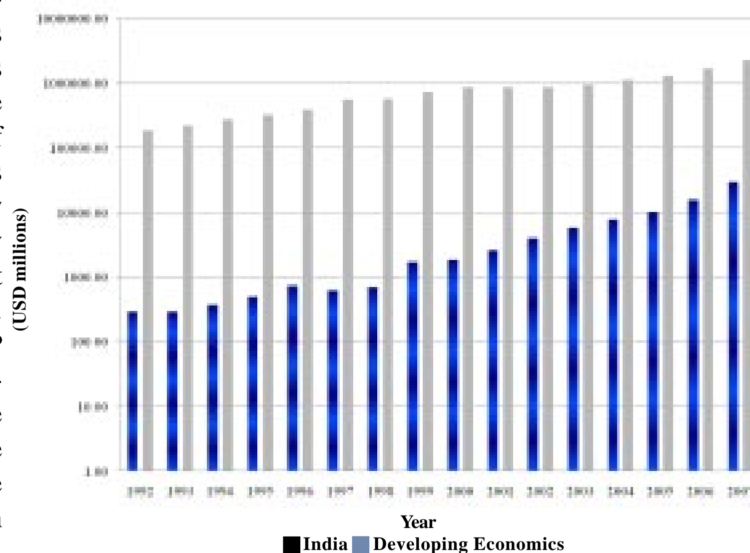
This paper takes a stock of the cross border acquisitions (CBAs) by Indian firms in the past one decade by analyzing the nature of these acquisitions and their impact on share holder value. From our analysis of a near population data on all CBAs by Indian firms in this millennium, we present the broad patterns visible and provide comparatives to unearth nuanced features of the phenomenon. We highlight some of stylized aspects of CBAs by Indian firms, identify the emergent anomalies and critical issues, and demonstrate the utility of observing a phenomenon in action to pave the way for future research studies. India provides the appropriate setting being the second largest and the second fastest growing emerging economy in the world with an enviable diversity in terms of culture, business models, industries, and firm ownership. The structure of the paper is as follows. We first briefly review the context to set the tone for our study. We then present the key findings from our study. Finally, we discuss our findings and their implications for further fine-grained research and lay out the agenda.

## Indian Outward FDI & M&A

Prior to economic liberalization, to a large extent, three restrictive policies of Foreign Exchange Regulation Act (FERA) of 1973, Monopolies and Restrictive Trade Practices Act (MRTPA) of 1969, and Industries Development and Regulation Act (IDRA) of 1951 shaped the direction and extent of indigenous and foreign capital in India (Kochanek 1986). FERA controlled the flow of the precious foreign capital in India, MRTPA controlled the competitive behaviour of firms, and finally IDRA through its industrial licensing policy specified the eligibility of firms to invest and the extent of investments in industries. It has been reported that prior to market reforms in the early 1990s, Indian FDI was largely market seeking; primarily due to a recessive and saturated domestic market; and, that indigenous private corporate sector was the major source of investments collaborating extensively with persons of Indian origin resident in the host markets (Morris 1990). Also, these investments were manufacturing sector specific, largely developing countries-oriented, and often involved minority Indian equity participation (Pradhan 2004). These characteristics of FDI largely subscribed to the popular internationalization theories and paradigms wherein firms exploited their advantages in proximal markets, gradually escalating the extent of commitment, before moving to more distant markets.

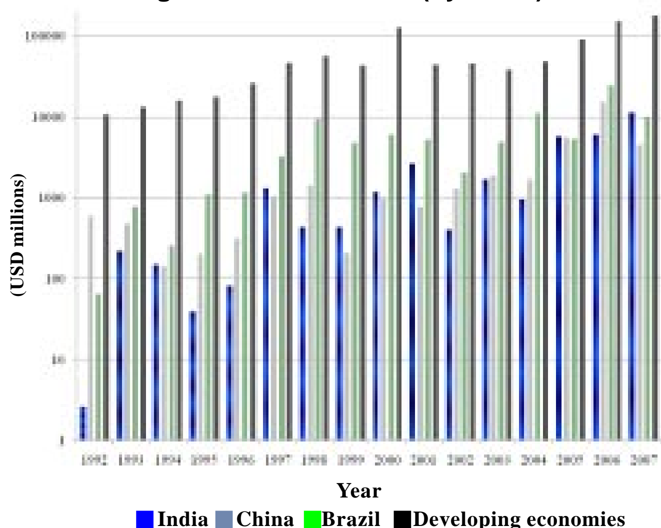
Post-reforms, however, the restrictive aspects of these policies were either discarded or the whole policy reframed, promoting both inward and outward FDI. The series of policy changes ushered in to regulate the movement of foreign investments reflects in the New Industrial Policy (NIP) that was first unveiled in 1991. Over the years NIP has continuously morphed promoting the investment climate in general, whose effects are visible in the overall FDI movement in the country. For instance, FERA was replaced by Foreign Exchange Management Act (FEMA) in 1999 which now permits corporate to invest up to 300% of the net worth in other countries. Indian firms are also permitted to borrow money abroad by issuance of Foreign Currency Convertible Bonds (FCCB) or via American Depository Receipts (ADRs) and Global Depository Receipts (GDRs). Fig. 1 compares the outward FDI for developing economies and India in the last decade and a half. The log-linear graph shows a clear exponential rise in the FDI flows emanating from developing economies; the share of India's contribution rising faster than the rest. Outward FDI has gone up from less than 300 million US$ to almost 30 billion US$ over the period 1992-2007. And the rise has sustained irrespective of the dips in the overall economic growth witnessed in the years 1997 and 2001 respectively.

**Fig. 1: Outward FDI**




As regards the form of the above FDI, according to the World Investment Report (UNCTAD 2008), out of a total $253 billion outward FDI emanating from the developing economies, almost $180 billion was accounted by CBAs. Fig. 2 below compares the value of outbound M&A from developing economies and some of the key representative countries. First, there has been an exponential rise (log-linear scale) in the value of CBAs by developing economy firms over the period 1992-2000 and also 2001-2007. Second, here again India appears to have the highest annual growth compared to others shown in the graph. From a meagre 3 million US$ in 1992, value of cross-border deals by Indian firms has jumped to almost 12 billion US$ in 2007, which is just under one half of the total outward FDI.

**Fig. 2: Outbound M&A (by value)**




If values can give a spurious account of the phenomenon, cross-border deals by numbers present an even more credible story. Fig. 3 below compares the outbound M&A deals for developing economies with those of its key constituent countries. While there has been an almost linear rise in the number of outbound deals for developing economies, India, along with Brazil and China have become increa-

**Fig. 3: Outbound M&A (by numbers) from key economies**

(Nos.)

Source: UNCTAD

singly prominent after 1997. In the last three years (2005-2007) India has outpaced Brazil and China in terms of number of deals. From just six in the whole of 1992, the number of deals has shot up to nearly 200 in 2007 (average numbers of deals in the period being greater than 60). Almost 75% of all the acquisitions since 2003 are cross-border deals and the number is expected to rise above 90% in the coming years (Accenture 2006) indicating the overwhelming domination of this particular mode of internationalization.

**India has outpaced Brazil and China in terms of number of deals.**

At a macro level, this observation stimulates the intellectual curiosity to understand why a particular mode of FDI should prevail upon other known modes of FDI. More so, for a developing economy, this is particularly intriguing since CBAs are complex activities and have been known to destroy firm value on an average (Moeller & Schlingemann 2005). To unearth the subtle variations with in this broad pattern of growth in CBAs, we carried out further analysis focusing on the Indian CBAs.

**Cross-border Acquisitions by Indian firms**

We scrutinized all 'completed' CBAs by publicly traded Indian firms over the period starting January 2000 and ending on December 2007. Thomson Financial database is our primary source of data supported by others such as the Prowess database by Centre for Monitoring of Indian Economy (CMIE), Company Master Data (Ministry of Corporate Affairs-Government of India), National Accounts Statistics database (United Nations Statistics Division) and the Reserve Bank of India. Thomson Financial database reports 580 completed CBAs by Indian incorporated firms for the period under analysis; with only 93 completed CBAs recorded in the previous one decade and a half.

It is a standard practice in such studies to assess the immediate market response to these acquisitions as reflected in the stock price movements of acquired and the acquiring firm. In this study we focus on the latter by analyzing the stock price of the acquiring firm on the Bombay Stock Exchange[1]. Assuming that the stock price captures most of the available information about a firm in terms of its present and future performance, changes in stock price at the time of or immediately after an announcement is made indicates the impact of the information revealed on firm's valuations. In order to monitor the stock price movements around an acquisition announcement we eliminate acquisitions by privately owned, unlisted (parent in case of wholly owned subsidiaries), delisted or suspended public firms on the Bombay Stock Exchange (BSE). We however retained acquisitions by unlisted wholly owned subsidiaries of listed

1 Premier stock exchange in India ranked 1st in terms of listed companies and 5th in terms of transactions in the world

parent firms since the impact of the announcement is expected to reflect in the stock price of the parent.

After meticulously screening the data for erroneous entries and inadequacies for stock price fluctuation analysis, reconciliation of announcements to resonate with BSE, and establishing substantial evidence for corroboration from at least two disparate sources of information or more, we arrived at a final set of 541 events or acquisition announcements for the period. Overview of the data is reported in Table 1.

**Table 1: Sample Description[a]**

| Industry | **Number of events** | Target Country | **Number of events** |
|---|---|---|---|
| Computer software & hardware | 181 | United States & Canada | 197 |
| Chemicals and allied products | 119 | United Kingdom, Germany, France & Netherlands | 126 |
| Automobiles & ancillaries | 43 | Singapore, Thailand, Malaysia & Japan | 47 |
| Metals and commodities | 37 | Australia | 19 |
| Diversified, Trading, Banking & Business services | 22 | United Arab Emirates & Egypt | 16 |
| FMCG, Jems & Jewellery, Textiles | 18 | South Africa | 11 |
| Storage & distribution, Other construction & allied activities | 12 | Brazil | 7 |
| Other | 109 | Others | 118 |
| **Total** | **541** | **Total** | **541** |
| *Target Market Status[b]* | | *Sector* | |
| Developed | 402 | Manufacturing | 295 |
| Developing | 139 | Services | 212 |
| Others | 34 | | |
| **Total** | **541** | **Total** | **541** |

[a] Includes all completed acquisitions by publicly traded Indian acquirer firms

[b] Categorization based on OECD (developed) and non-OECD (developing) countries

Overall distribution of data reveals that these 541 CBAs by 195 listed Indian firms or their wholly owned subsidiaries in 70 different industries acquired targets in 66 countries (of which 26 are OECD[2] members). 295 of the acquisitions were in the manufacturing sector, 212 in the service sector the remaining belonging to others such as the mining and exploration sector. Clearly, CBAs by Indian firms since the beginning of this millennium is a broad based phenomenon uniformly spread across sectors spanning several industries; geographically disperse in terms of target locations, many of which are advanced

2 Organization for Economic Co-operation and Development (OECD) comprises 30 highly industrialized member countries producing almost 60% of the world's goods and services

economies in terms of level of development. Majority of the acquisitions (348) involved privately held targets or their wholly owned subsidiaries and assets; 454 acquisitions involved management control[3] in the target acquired. Interestingly, 351[4] out of these 454 majority control acquisitions are in the OECD countries. Close to 60% of the acquisitions in the sample set involved targets in the advanced markets of United States of America, Canada, United Kingdom, France, Netherlands and Germany.

Amongst the industries, computer software and hardware, chemicals and allied products (including drugs and pharmaceuticals), automobiles and ancillaries account for more than 60% of all acquisitions. The notable feature of these industries is the relatively high involvement of technology. In terms of number of participating firms, 195 acquirers[5] account for these 541 acquisitions of which 113[6] have made multiple CBAs over the period.

Next we analyzed the stock price movement of the acquiring firm, around the date of announcement of the acquisition, to assess its impact on investors' returns. In order to place it in perspective and bring forth the finer differences, we report the findings in the form of comparative charts (Figs. 4 - 8) showing the 15 day (-7 days to +7 days around the announcement or 'zero' day) movement of cumulative average abnormal returns[7] to the shareholders of acquiring firm. In these graphs we compare controlling stake acquisitions[8] with non-controlling stake acquisition[9], CBAs with within border or domestic market acquisitions (WBAs), developed country target with developing country target acquisitions, private target with non-private target acquisitions, and finally acquisitions in the manufacturing sector with those in the services sector. Since nearly 84% of all CBAs by Indian firms are controlling stake acquisitions, barring fig. 4, in all the subsequent figs. we draw parallels for only the controlling stake acquisitions in each of the category mentioned. Point wise summary of the analysis suggests:

i. Controlling stake acquisitions yield nearly 2% additional gains over non-controlling stake acquisition (fig. 4).

ii. More than 2% returns on an average in CBAs is nearly twice the returns to shareholders of acquiring firm in WBAs (fig. 5).

iii The difference between OECD country targets and non-OECD or developing country targets acquisitions are almost negligible although both are significant and positive (fig. 6).

3 Greater than 50% stake holding in the acquired firm

4 186 of which are in the manufacturing sector

5 114 of which belong to the manufacturing sector

6 60 of which belong to the manufacturing sector

7 Stock returns discounting for the overall stock market index returns

8 More than 50% of stake holding in the target after the reported acquisition

9 These also include additional stakes acquired post attaining majority holding

ii. Acquisitions of privately held firms lead to marginally lower returns than the non-private targets but the average returns in both the categories are substantially high (fig. 7).

iii. Finally, although CBAs in both manufacturing and services sector yield significantly positive returns, returns in the former are generally lower by about 1% (fig. 8).

One needs to bear in mind that the entire exercise of evaluating stock market response to strategic decisions by firms fundamentally assumes a strong or semistrong form of efficient market hypothesis. This essentially means that all information pertaining to a firm's present and future performance is effectively captured in its stock price. Therefore, positive reactions of Indian stock market to acquisitions and a significantly higher positive response across most of the categories analyzed above, assume expectations of better overall firm performance post-acquisition. This opens up a whole new front of firm level issues such as post-acquisition integration strategies, governance structure, reconfiguration of resources and capabilities and so on. It is also likely that a broad classification based on membership of a country to an elite group such as OECD does not capture the subtle differences amongst the member countries which could be valuable at an industry or firm level. In this regard it may be

**Fig. 4**
**Cumulative average abnormal returns (CAAR) in controlling stake and non-controlling stake cross-border acquisitions by Indian firms (N=541)**

Days around the event announcement

CAAR to acquirers in controlling stake acquisitions
CAAR to acquirers in non-controlling stake acquisitions

**Fig. 5**
**Cumulative average abnormal returns (CAAR) in within-border acquisitions (WBAs) and cross-border acquisitions (CBAs) by Indian firms (N=454)**

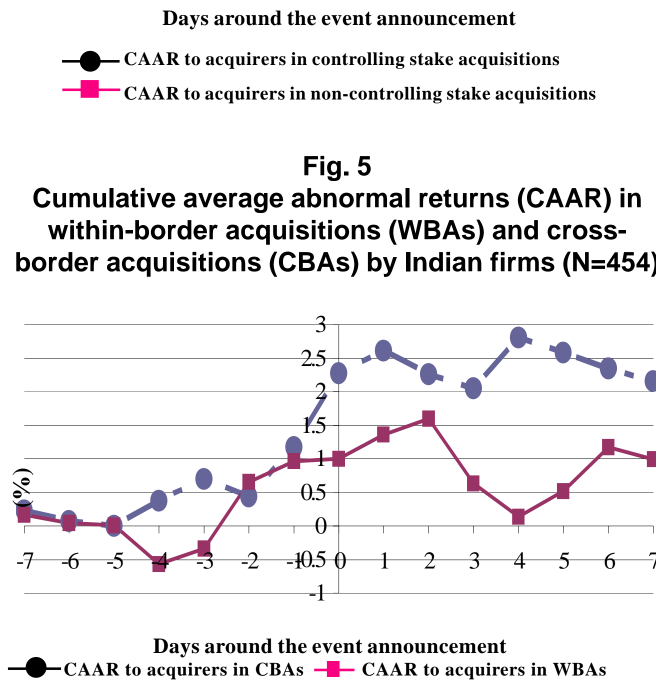


**Fig. 6: Cumulative average abnormal returns (CAAR) in cross-border developed (OECD) and developing country (non-OECD) target firm acquisition by Indian firms (N=454)**

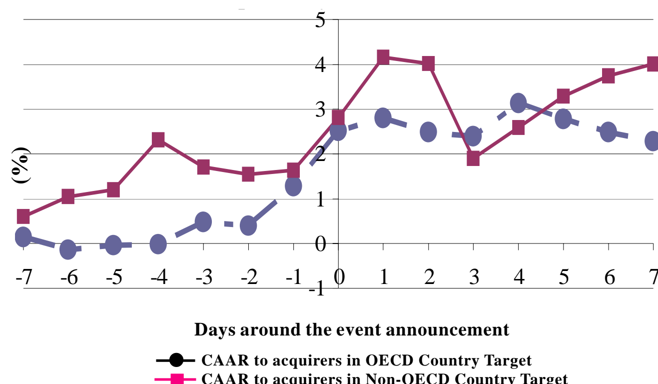



**Fig. 7: Cumulative average abnormal returns (CAAR) in cross-border private and non-private target firm acquisition by Indian firms (N=454)**

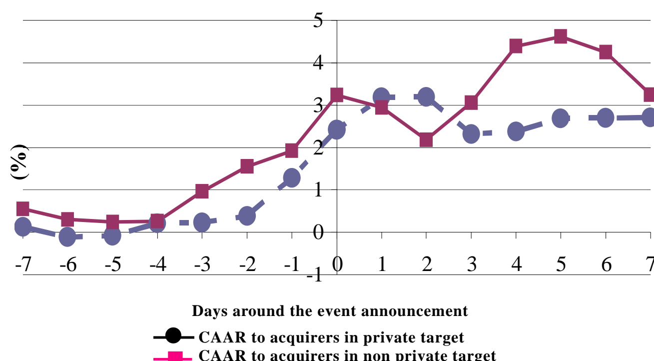
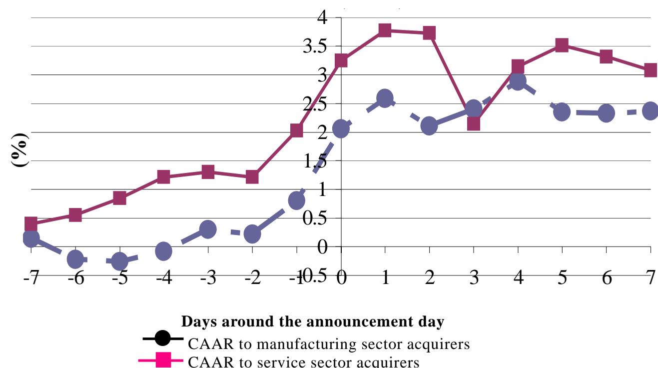



**Fig. 8: Cumulative average abnormal returns (CAAR) in cross-border acquisition by Indian firms in the manufacturing and services sector (N=454)**




prudent to dissect this information further employing more subtle measures of dissimilarity between two national markets such as the economic distance, cultural distance and institutional distance (Ghemawat 2001). Also, negligible difference observed between private and non-private categories of acquisitions, contrary to what has been documented in literature (Capron & Shen 2007), invites additional analysis. A possible direction could be to examine the nature of equity holding in the acquiring firms as well as in the target firms, wherever applicable. One could also look at sub-classes such as private firms in advanced markets versus private firms in developing markets to check for different expectations from acquisition performance. Finally, very few studies in literature have tried to contrast firm behaviour related to similar strategic decision across diverse economic sectors such as the manufacturing and services. There is a fundamental difference between firms in the two sectors and, given the human resource intensive nature of service sectors, it comes as a surprise that acquisition by

firms in this sector should outperform those in the manufacturing sector. Often, resistance to effective integration of two firms comes from its human workforce and, therefore, one would expect post-acquisition integration to be a bigger challenge in acquisitions by service sector firms. It may be fruitful to explore this aspect with a more fine grained analysis in future studies.

**One would expect post-acquisition integration to be a bigger challenge in acquisitions by service sector firms.**

In the next part of the data analysis, we examine a few firm specific features. Table 2 provides a list of the top six reasons cited by firms to justify the acquisition. Although acquisitions are known to be one of the effective modes to tap foreign markets, it is of interest to know why most Indian firms making CBA consider this mode to prevail over other alternates such as alliances or greenfield investments. Given the high numbers of CBAs made in advanced economies by Indian firms, it comes as no surprise that most Indian firms seek strategic assets in these CBAs since such assets are hard to obtain by market transactions and the underdeveloped state of home institutional environment makes it difficult to obtain these assets locally (Khanna & Palepu 1997). It is likely that a large number of such acquisitions target advanced economies where better protection of intellectual property rights promise availability of strategic resources such as technology, domain knowledge, better brands and so on. Justifications cited also suppose that most Indian firms anticipate scope for a more diverse portfolio of products and services by combining the strengths of the two merging entities in CBAs. It is interesting to note that aspirations to be a global player, superior complementary combinations, and greater hold over a geographic market are the other most cited justifications for CBAs by Indian firms. Motivations such as these reflect a sense of supreme confidence to be globally competitive; a premise that is most essential to eventually become a multinational firm.

**Table 2: Top cited justifications for CBAs by Indian firms**

| | Motivation | Description |
|---|---|---|
| 1) | Access markets | Widening the geographic market footprint |
| 2) | Strategic assets | Addition of technology, know-how, client-relationship, domain experience, brand etc. |
| 3) | New products | Increased product/service portfolio |
| 4) | Market consolidation | Deepening presence in a particular geographic market already being served |
| 5) | Global business | Aspire to be a global player in the domain or business |
| 6) | Complementarities | Superior complementary attributes of combining firms |

Continuing to probe further, in Table 3 we examine those aspects of CBAs by Indian firms that convey a sense of the distribution of events across time periods and by a few firm-level features. Here we examine categories of acquisitions by target market, majority stake, sector of the economy and extract statistic such as frequency, mean, median, and standard deviation for the key parameters of interest to us: cumulative abnormal returns, acquiring firm's age and size. We discuss some of the standout features visible in the data.

**Table 3 : Data Summary by Nature of Acquisitions**

| Parameter | 11 day window cumulative abnormal return (%) | | | | Firm age (years) | | | Firm size (Total assets in Rs. Crores) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Statistic | N | Mean | Median | Std. Dev. | N | Mean | Median | N | Mean | Median |
| Sample | All acquisitions | | | | | | | | | |
| 2000 | 26 | 3.86 | 1.35 | 14.92 | 26 | 22.81 | 14.00 | 25 | 2531.66 | 677.13 |
| 2001 | 8 | -0.20 | -1.75 | 6.03 | 8 | 25.25 | 16.50 | 8 | 8573.64 | 1616.45 |
| 2002 | 22 | 0.73 | -1.23 | 5.95 | 22 | 35.68 | 37.00 | 22 | 4467.38 | 1003.48 |
| 2003 | 34 | 3.10 | 1.34 | 8.86 | 34 | 29.62 | 22.00 | 34 | 8963.49 | 1137.66 |
| 2004 | 51 | 1.21 | 0.47 | 6.20 | 52 | 22.96 | 18.50 | 52 | 3146.68 | 498.69 |
| 2005 | 105 | 1.85 | 0.86 | 7.76 | 107 | 27.53 | 19.00 | 104 | 18328.47 | 799.79 |
| 2006 | 138 | 3.29 | 1.88 | 9.18 | 140 | 29.62 | 21.00 | 140 | 4645.39 | 1023.14 |
| 2007 | 148 | 2.26 | 1.44 | 8.05 | 152 | 28.77 | 21.00 | 149 | 3634.17 | 910.37 |
| Total | 532 | 2.38 | 1.23 | 8.55 | 541 | 28.18 | 20.00 | 534 | 7109.66 | 921.95 |
| Sample | Only controlling stake acquisitions (>50% holding in target) | | | | | | | | | |
| Total | 446 | 2.67 | 1.31 | 8.74 | 454 | 27.67 | 20.00 | 447 | 6333.21 | 876.64 |
| Sample | Only developed market acquisitions | | | | | | | | | |
| Total | 395 | 2.52 | 1.90 | 8.67 | 402 | 25.49 | 20.00 | 396 | 2204.16 | 901.85 |
| Sample | Only manufacturing sector acquisitions | | | | | | | | | |
| Total | 292 | 2.46 | 1.70 | 7.31 | 295 | 32.50 | 23.00 | 291 | 3698.94 | 1197.90 |
| Sample | Only services sector acquisitions | | | | | | | | | |
| Total | 206 | 1.91 | -0.04 | 9.88 | 212 | 20.94 | 15.50 | 209 | 9366.55 | 345.01 |

## Standout Features

Data reveals that across all acquisitions and across years, both mean and median cumulative abnormal returns to acquiring firm's shareholders are generally positive. This suggests minimal skewness in the data and presence of outliers. Also, the median values of firm age and firm size across years are generally lower than mean values suggesting that several younger and smaller firms too have made overseas acquisitions. Similar patterns are visible in the controlling stake

acquisitions as well as in the advanced or developed market target acquisitions. However, we find subtle differences between acquisitions made in the manufacturing and services sectors. Although in the initial few years acquisitions in the services sector were greater than or almost same as those in the manufacturing sector, in the latter years manufacturing sector acquisitions are distinctly higher. In terms of shareholder returns, for the CBAs in the manufacturing sector both mean and median values are consistently positive and high throughout the period. However, for the services sector we find the median values to fluctuate between negative and positive values implying that expectations of higher returns are specific to fewer acquisitions. Also, earlier (fig. 4) we found expected returns in controlling stake CBAs in service sector to be significantly greater than those in the manufacturing sector. Taken together with the pattern visible in Table 3 it appears that controlling stake is of far greater significance to the services sector than to the manufacturing sector. As expected, acquiring firms in the manufacturing sector are older and larger than those in the services sector.

**Controlling stake is of far greater significance to the services sector than to the manufacturing sector.**

## Implications for Theory & Future Research

Given the rapidly rising incidence of Indian CBAs, the first question that arises is whether the phenomenon is merely a band wagon effect or is there merit to it. For, it has been reported in other contexts that industrial activities such as M&As often occur in waves and the performance consequences of these activities are a function of the timing, external environment, and factors inside the firm (McNamara, Haleblian, & Dykes forthcoming). So, one needs to know whether Indian CBAs is a wave phenomenon and, if so, at what stage. Second, unlike China, where majority of the CBAs are by predominantly state owned firms, natural resource-seeking, and concentrated in Asia (Buckley et.al 2007, Luedi 2008), Indian outward FDI in the form of CBAs encompasses a much wider variety of industries, firms, target country choice, and ownership controls. Moreover, contrary to the findings of some of the scholars on internationalization behaviour of firms in other similar emerging economies where they document strong influence of ethnic and cultural ties between home and host markets in the initial outward forays (e.g., see Erramilli, Srivastava & Kim 1999, Sim & Pandian 2003), no such behaviour is visible in Indian firms' post-reforms initiatives. Is the issue of 'who should internationalize and where' is determined by heterogeneous firm level choices or does the institutional environment shape these choices? The jury is yet to be out for Indian firms on CBAs.

Further, given the uniform distribution of CBAs in the period over the manufacturing and service sectors, there is a potential opportunity to compare the

performance outcomes of similar strategic choice across these distinct sectors of industrial activities. For instance, it would be interesting to understand why majority controlled Indian service sector CBAs are expected to outperform those in the manufacturing sector, as evident from our findings. Understanding the key challenges across these two sectors and their similarities or distinctness will be most valuable for the practitioners contemplating future CBAs. As such there are few studies that simultaneously involve both these sectors; and almost none that consider CBAs. The unexpected results related to private and non-private target acquisitions also poses a paradox. Why are the Indian firms continuing to persist with private target acquisitions while the data on immediate market expectations from these acquisitions is on the contrary? Have the markets overlooked or the managers of these firms succumbed to their 'hubris'? There are still no answers to these questions in emerging economy contexts.

**Much of the outward FDI from India is moving out in the form of majority controlled CBAs in to advanced OECD countries,**

Moreover, much of the outward FDI from India is moving out in the form of majority controlled CBAs in to advanced OECD countries, whereas in the case of many other emerging economies such outward FDI flows have occurred initially in to proximal markets mainly in the form of low commitment and less risky modes of internationalization such as strategic alliances and joint ventures (Anand et.al 2006, Makino et al. 2002, Sim & Pandian 2003). Given that these advanced target country acquisitions are outperforming the market expectations, Indian CBAs prima facie appear to rebut the more accepted axioms and stages model of internationalization. There is scope for theory building here.

Patterns visible in the underlying motivations in the acquisitions analyzed hint at internationalization by this particular mode as a possible 'springboard' to acquire strategic assets (Luo & Tung 2007). If so, then what is the nature of these assets and how do they integrate and redeploy these assets subsequently? More significantly, given the complexity and risks associated with CBAs, how are these firms managing the post-acquisition process, particularly where targets are located in distant markets? Taking a longer term view on CBAs, are the expectations of greater value creation, as evident in the favourable responses of stock market, being met? Are the acquirers gaining through actual value creation post acquisition? Are some firms doing better than others in realizing value post acquisition?

Given the fair numbers of repeat acquirers in the analyzed sample, are these firms benefiting from their previous acquisition experience? If so, how is this experience shaping their subsequent moves? Is the learning

involved in these acquisitions for both the acquirer and the acquired different from those of acquisitions made by developed economy firms? At present much of the answers to such questions in extant literature come from studies conducted on acquiring firms from developed markets.

As reported earlier, Indian CBAs also appear to outperform WBAs which is contrary to what western scholars have found (Conn et al. 2005, Moeller & Schlingemann 2005). Does this feature extend to other emerging economies also or is it specific to the Indian context? This is intriguing in the light of a recent similar study of deals by Chinese firms, where consulting firm Mckinsey reports a mixed performance in terms of deal value added to shareholders (Luedi 2008). This contrasting evidence on the outcome of the same economic action by firms, supposedly belonging to similar contexts as per literature, throws up a number of potential research questions. Why are the deals by Indian firms creating value for shareholders whereas in China they are not? Is there a missing mediator/moderator that has gone unobserved? Can the extant theories account for such unexpected differences in terms of economic performance? A comparative study on CBAs involving emerging multinationals from multiple countries may be warranted to answer many of these questions.

**Why are the deals by Indian firms creating value for shareholders whereas in China they are not?**

## Conclusion

Fast developing and transition economies as sources of Foreign Direct Investment (FDI) are rapidly moving to the centre stage of the global economy. Rising from almost negligible levels until the mid-1980s, the outflows from these economies totalled $2533 billion in 2007 accounting for 13% of the world total. More significantly, between 1987 and the first half of 2008, the share of multinational companies (MNCs) from these developing and transition economies in global cross-border mergers and acquisitions increased from 4% to 16% in value terms, and from 5% to 15% in terms of number of deals concluded (UNCTAD 2008). In spite of the escalating pre-eminence of these economies in global FDI flows, and the undisputable visibility of CBAs, very few studies have attempted to explore the intricacies of CBAs by emerging MNCs. This has resulted in several critical gaps in the body of literature.

A common defining feature of the extant studies on CBAs is the predominant focus on developed markets in the triad nations of Japan, U.S.A, and the European Union (Brouthers & Hennart 2007). These highly integrated markets in terms of market transactions, infrastructure, institutional rules and enforcement mechanisms (Makino et.al 2004) fail to differentiate CBAs from within border acquisitions (WBAs), as reported in some studies (Conn et.al 2005, Moeller & Schlingemann 2005). It is likely that the unique challenges of international acquisitions, requiring higher payoffs to compensate, as well as the opportunities

to acquire new knowledge and new capabilities (Shimizu et. al 2004), get diffused in these contexts but gain prominence in other contexts as those of the developing economies. Therefore, studies of CBAs in such contexts presents itself as a huge opportunity to test, contrast, review and perhaps enrich our shared understanding in the form of theories, paradigms, and models.

Moreover, there exists a humongous variety amongst the emerging economies and at times within the same economy in terms of cultures, institutional environments, pace of development, firm ownership and so on (Hoskisson et. al 2000) which uniquely shape firm strategies and their outcomes. While such a variety poses a challenge to discover ingenious ways to overcome the difficulties, it can be rewarding by revealing unexpected moderators/mediators and outcomes and enhance our conventional wisdom. The departures from convention and the unique parameters faced, rationales and strengths of the firms in these economies can challenge and enrich the extant knowledge (Luo & Tung 2007). For, as a high-commitment mode and more advanced vehicle of internationalization, FDI via CBA route is expected to reveal significant differences in terms of strategies related to national contextual factors (Filatotchev et.al 2007; Makino et.al 2002).

Overall, from our broad brush picture of CBAs by Indian firms, we have attempted to demonstrate the many merits of observing a rising phenomenon in real time and how some of the emergent issues can challenge our state of the knowledge.

**Some emerging economy firms have been adopting complex, risky and high commitment modes to access other national markets.**

From the prima facie evidence available, a number of research gaps and anomalies are highlighted which still lack cogent explanation. The primary purpose of this paper was to reveal unstudied aspects of FDI behaviour of emerging economy firms. Our presentation of stylized aspects of CBAs by Indian firms demonstrates that some emerging economy firms have been adopting complex, risky and high commitment modes to access other national markets. We invite researchers to explore some of the visible gaps revealed in this paper; thereby, not only contribute to our nuanced understanding of CBAs, but also add to the fledgling body of knowledge on emerging multinationals.

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