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**DOES CORPORATE PERFORMANCE IMPROVE
AFTER ACQUISITIONS?
A CASE OF INDIAN COMPANIES**

A thesis

submitted in fulfillment of

the requirement for the degree

of

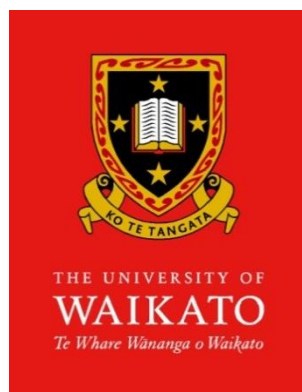
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ABSTRACT

This thesis examines the results of merger and acquisition (M&A) activities of Indian corporates related to Outward Foreign Direct Investment (OFDI). The key issue is the extent to which these M&As create value for the shareholders of the Indian acquiring firms. There are two components to this question relating to the short and longer term impacts. First, how does the market react to the announcements of OFDI related M&As by Indian corporates in the short term? and second, how successful are the Indian companies in creating value to the shareholder in the long run? The research further considers the firm specific level using a sample of M&A companies and how media material may have contributed to the market impacts experienced by the corporates.

The liberalisation investment policy initiations by the Indian government lead to rapid growth in outward foreign direct investments between 2000 and 2008. It is interesting to note that India experienced annual average growth of 1399% in OFDIs during the period 2001-2008. Encouraged by the financial reforms, an increase in large scale mergers and acquisitions (M&As) by Indian corporate occurred. The present study examines the performance of Indian corporates involved in the OFDI related M&As.

The research is important because it is the first to assess the success of Indian corporates involved in outward foreign direct investments from the short term and long term perspective and across sectors. The thesis fills the gap in the literature in which it examines the aggregate performance and also looks into firm specific level performance. The study links the ownership, location and internationalisation (OLI) theory to the strategies of Indian corporates and discusses how they are aligning with international brands to stand in the international market

The short-run performance is assessed using an event method utilising a three-day short-event window surrounding the acquisition announcement period. Various metrics including abnormal returns (AR), cumulative abnormal returns (CAR) and standardised cumulative abnormal returns (SCAR) are analysed. The study adopts event approach to measure the long term performance and includes: CAR, and Buy and Hold Abnormal Returns (BHAR). The study considers parametric and non-parametric tests. The other measures like Wealth Relative and Tobin's Q are also used. The study considers a maximum 36 months following the acquisition event month.

The empirical results showed positive wealth effects to stockholders in the short- and long-term periods and the empirical results supported rejection of the null hypotheses. However, specific firm-level empirical findings showed mixed results in the short term. The variations in the outcomes, such as why one M&A should receive an initial positive market reaction while another adverse market reaction, relate to the individual contexts and how the market assesses the changing return and risk parameters.

The study proposed explanations for the variations in outcomes based on prior findings and OLI theory. Drawing on secondary information the study offers explanations for the share market reactions. Commentaries from financial analysts and commentators, and media releases from the company concerning a mooted M&A may impact investors' assessments of the return and risk parameters for each company. Context is important and the specific characteristics of the Indian companies affect the outcomes.

Prior studies undertaken from the context of Indian Internationalisation viewed that Indian firms have the capacity and the ability to compete in the world market. The attributes of Indian firms, which created such capacities and abilities, are embedded in the past and have emerged over a much longer period of time. The motivations for Indian firms' overseas acquisitions include: gaining access to international markets, firm-specific intangibles, such as technology and human skills, and benefits from operational synergies, to overcome constraints from limited home market growth, and to survive in an increasingly competitive business environment. The rationale for OFDI related M&As by firms is to create value to their investments (Pradhan & Abraham 2004; Kumar 2006; Deepak 2008).

The study examined five cases of Indian corporates. It identified that Indian corporates acquired competitive ownership advantages through the OFDI related M&As. For instance, through acquisitions the Indian corporates had the advantage of being local in foreign destinations and avoided the disadvantages of being foreigners in European, UK & US markets. Likewise, by undertaking integrated production networking, the Indian corporates linked the low-end players with the

high-end players and were able to draw synergies and deliver value. In other words, the initial processing of raw materials was carried out in India closer to source and then the remaining processes were carried out in the acquired company's country which allowed them to have access to the technology and also interface with the customers of the acquired companies. The study shows how the synergies occur due to disintegrated model of operations subsequent to the acquisitions. The explanations of the present study are in line with the prior findings.

By adding to the prior studies and by integrating empirical research of aggregate results with explanations of the specific firm level, the thesis opens up possibilities for future research.

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In all your ways acknowledge him, and he will make your paths straight, Proverbs 3:6

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TABLE OF CONTENTS

ABSTRACT.....	I
ACKNOWLEDGEMENTS.....	V
TABLE OF CONTENTS.....	VIII
LIST OF TABLES.....	XIV
CHAPTER 1: INTRODUCTION.....	1
1.1 INTRODUCTION.....	1
1.2 VALUE CREATION AND CHANGES IN THE INVESTORS' EXPECTATIONS	4
1.3 SIGNIFICANCE OF THE STUDY	6
1.4 RESEARCH QUESTIONS.....	8
1.5 RESEARCH HYPOTHESES	9
1.5.1 <i>Hypotheses of the study (Short term and Long term perspectives).....</i>	<i>9</i>
1.6 RESEARCH METHOD.....	10
1.6.1 <i>Research Method – Short-term perspective.....</i>	<i>10</i>
1.6.2 <i>Research methods from long-run perspective</i>	<i>11</i>
1.6.3 <i>Research methods for explaining the empirical results.....</i>	<i>12</i>
1.7 ORGANISATION OF THE STUDY	13
CHAPTER 2: BACKGROUND OF THE STUDY.....	18
2.1 INTRODUCTION.....	18

2.2	REGULATORY FRAMEWORK OF INDIAN GOVERNMENT POLICY RELATING TO OFDI	19
2.3	TRENDS AND PATTERNS OF INDIAN OUTWARD FOREIGN DIRECT INVESTMENT	23
2.4	TOP 30 FOREIGN ACQUISITIONS BY INDIAN FIRMS 2000-2008	25
2.5	CONCLUSIONS:	31

CHAPTER 3: INTERNATIONALISATION: A THEORETICAL PERSPECTIVE.....33

3.1	INTRODUCTION.....	33
3.2	THEORIES RELATING TO INTERNATIONALISATION.....	34
3.2.1	<i>Ownership, Location and Internationalisation resource-based view.....</i>	<i>34</i>
3.2.2	<i>Institution-based view.....</i>	<i>38</i>
3.2.3	<i>Economic Theory view</i>	<i>39</i>
3.2.4	<i>Resource-Based View.....</i>	<i>42</i>
3.2.5	<i>Organisation Theory View</i>	<i>45</i>
3.2.6	<i>Asset-Exploitation and Asset-Exploration Perspective</i>	<i>46</i>
3.3	RELATED AND UNRELATED ACQUISITIONS.....	47
3.4	PRIOR RESEARCH RELATING TO MOTIVATION FOR THE GROWTH IN THE OUTWARD FDI	50
3.5	INTERNATIONALISATION MODEL	56

3.6	CONCLUSIONS	59
CHAPTER 4: REVIEW OF LITERATURE.....		61
4.1	INTRODUCTION.....	61
4.2	PRIOR STUDIES CATEGORISATION.....	61
4.3	SHORT-TERM EVENT STUDIES	62
4.3.1	<i>Secondary Information and Stock market reactions.....</i>	71
4.4	LONG -TERM STUDIES.....	76
4.5	LITERATURE ON RESEARCH METHODS.....	84
4.6	ISSUES RELATING TO METHODS AND MODELS USED IN M&AS STUDIES..	90
4.7	CHALLENGES IN ESTIMATING EXPECTED RETURNS FOR LONG TERM PERIODS.....	94
4.8	ESTIMATION PERIOD USED IN THE PRIOR FINDINGS	98
4.9	EMERGING AND TRANSITION MARKET STUDIES	103
4.10	EMPIRICAL FINDINGS FROM INDIAN CONTEXT	105
4.10.1	<i>Indian Stock Market Studies</i>	115
4.11	BOARDS AND PERFORMANCE	116
4.12	CONCLUSIONS	121
CHAPTER 5: RESEARCH METHODOLOGY.....		130

5.1	INTRODUCTION.....	130
5.2	PART A: SHORT TERM METHODS.....	130
5.2.1	<i>Research Hypothesis</i>	131
5.2.2	<i>Research Method</i>	132
5.2.3	<i>About Event Study Methods</i>	132
5.2.4	<i>Event Window Framework and Taxonomy</i>	134
5.2.5	<i>Event Study Approaches</i>	136
5.2.6	<i>Measuring AR under OLS Market Model</i>	138
5.2.7	<i>Approaches of the Present Study</i>	141
5.2.8	<i>How is the present study different from the prior studies?</i>	144
5.2.9	<i>Sample and Data</i>	145
5.3	PART B: LONG TERM METHODOLOGY.....	146
5.3.1	<i>Introduction</i>	146
5.3.2	<i>Hypotheses of the Study:</i>	148
5.3.3	<i>Approaches and methods for estimating abnormal returns in the long-term studies</i>	149
5.3.4	<i>Issues relating to the methods used in estimating abnormal returns in the long- period studies</i>	156
5.3.5	<i>Rationale behind choosing models for the study</i>	161
5.3.6	<i>Tests used in the study</i>	163

5.3.7	<i>Tests for assessing the performance of Indian corporates involved in the OFDI related M&As in the pre-acquisition and post-acquisition period</i>	166
5.4	PART C: RESEARCH METHODS FOR EXPLAINING THE EMPIRICAL RESULTS	167
5.5	CONCLUSIONS	169
 CHAPTER 6: EMPIRICAL INVESTIGATION OF SHORT TERM AND LONG TERM PERFORMANCE.....		171
6.1	INTRODUCTION.....	171
6.2	PART A: SHORT TERM PERFORMANCE	172
6.2.1	<i>Stock market reactions following announcement of thirty OFDI related M&As by Indian Corporates.....</i>	172
6.2.2	<i>Pre-Acquisition performance</i>	176
6.2.3	<i>Describing the Short Term Empirical Results</i>	177
6.3	PART B: LONG TERM PERFORMANCE.....	179
6.3.1	<i>Introduction.....</i>	179
6.3.2	<i>Findings of the study</i>	179
6.3.3	<i>Results of Parametric and Non-Parametric Tests.....</i>	180
6.3.4	<i>Relating to wealth relative and summary performance of the OFDI-related Indian corporates involved in acquisition activity.....</i>	183
6.4	CONCLUSIONS	193

CHAPTER 7: THEORETICAL EXPLANATION OF THE EMPIRICAL FINDINGS AT FIRM-SPECIFIC LEVEL.....196

7.1 INTRODUCTION..... 196

7.2 EXPLANATIONS FOR DIFFERING OUTCOMES..... 197

7.3 IDENTIFIED DRIVERS BEHIND THE OFDI RELATED M&AS BY INDIAN CORPORATES..... 228

7.4 NEXUS BETWEEN THE OFDI INDIAN GOVERNMENT POLICY AND THE IDENTIFIED DRIVERS BEHIND OFDI RELATED M&AS BY INDIAN CORPORATES 236

7.5 COMPARISON OF EMPIRICAL FINDINGS WITH PRIOR FINDINGS FROM MATURE MARKETS 239

7.6 CONCLUSIONS 246

CHAPTER 8: CONCLUSIONS OF THE STUDY.....249

8.1 INTRODUCTION..... 249

8.2 SHORT TERM 251

8.2.1 *Research Hypothesis* 251

8.2.2 *Methods – short term*..... 251

8.2.3 *Analysis of Results*..... 252

8.3 LONG TERM..... 253

8.3.1 *Hypotheses of the study (Long term perspective)*..... 253

8.3.2 *Methods used*..... 254

8.4	ANALYSIS OF RESULTS.....	255
8.5	EXPLANATION FOR VARIATIONS IN OUTCOMES OF THE EMPIRICAL FINDINGS	256
8.6	CONTRIBUTION OF THE STUDY	261
8.7	LIMITATIONS OF THE STUDY	264
8.8	SUGGESTIONS FOR FUTURE EMPIRICAL RESEARCHERS.....	264
	REFERENCES	266
	APPENDIX: A	291
	APPENDIX: B	296

LIST OF TABLES

Table 2-1: India's Foreign Direct Investment Inflows and Outflows (US \$ Millions).....	24
Table 2-2 : Top Thirty Foreign Acquisitions by Indian Firms from 2000 to 2008	26
Table 2-3: Transaction Settlement of 30 OFDI related Acquisitions by Indian corporates from 2000 to 2008	29
Table 4-1: Evidence from Short-run Event Studies	124
Table 4-2: Evidence from Long-run Event Studies	127
Table 6-1: Average Abnormal Returns and Cumulative Abnormal Returns.....	173
Table 6-2: Firm-wise abnormal returns (AR) on the event announcement day..	174
Table 6-3: Paired t-test results showing changes in Sales, Dividends, PAT & Total Assets in the pre-acquisition period	176
Table 6-4: Parametric Tests	180
Table 6-5: Non- Parametric Tests	182
Table 6-6: Wealth Relative of the OFDI-related Indian M&A Firms	184
Table 6-7: Summary of performance of the OFDI-related Indian M&As under three approaches.....	186

Table 6-8: Growth (post-pre) in Sales, Dividends and Profit After Tax (PAT) in the post-acquisition of the OFDI related Indian corporates involved in Acquisitions. 187

Table 6-9: Paired t-test results for the changes in sales, dividends and PAT in the post-acquisition period..... 191

Table 6-10: Correlation Matrix of OFDIs, Sales and Total Assets (2000-2007) 192

Table 7-1: Identified Drivers behind OFDI related M&As by Indian Corporates 229

Table 7-2: : Changes in Approaches of Indian Corporates involved in OFDI related M&As..... 238

Table 7-3: Comparison between mature market and emerging market studies.. 244

CHAPTER 1: INTRODUCTION

1.1 Introduction

This chapter presents a framework for the thesis. It includes a background to the study, its significance, research questions, research hypotheses, research methods, organisation of the study and a summary of findings and conclusions.

Following liberalisation of its policy regime by the Indian government, the country experienced a rapid growth in outward foreign direct investments between 2000 and 2008. Encouraged by the financial reforms, an increase in large scale overseas mergers and acquisitions (M&As) by Indian corporate occurred.

In India, the per capita GNP which was US\$ 430 in 2000 increased to US\$ 1270 in the year 2011¹. Encouraged by the financial reforms, an increase in large scale cross border mergers and acquisitions (M&As) by Indian corporate occurred. The total value of outbound deals by Indian acquiring companies outside India, in February, 2011 was \$441 million (5 deals) as against \$206 million (11 deals) in 2010 (ET, 12th, March, 2012). The economic effects of these overseas ventures have received little evaluation. This thesis undertakes an analysis and evaluation of the economic consequences of the outward foreign direct investment (OFDI) related M&As by Indian corporates. The method is to evaluate thirty overseas acquisitions by large scale Indian corporates.

¹ Source: World Investment Report (available online).

The thesis examines the reactions of the shareholders in the stock markets to the strategic decisions made by the Indian corporates in going global. The study assesses the success of OFDI related M&As by Indian corporates by examining short-term performance effects in terms of the stock market reaction to the announcement of OFDI related M&As. The study analyses the post-acquisition corporate performance and wealth creation by Indian corporates in the post-acquisition period following OFDI related M&As. The study addresses the questions: (1) How does the market react to announcements of OFDI related M&As by Indian corporates? and (2) How successful are the Indian companies in creating value to the shareholder in the long run? The thesis examines the particular results of companies and provides tentative theoretical explanations for observed differences. The theorisation opens up possibilities for future empirical research.

With globalization, many nations have liberalized their trade policies and removed trade barriers. The transaction costs decreased and the integration of economies has contributed to increases in foreign direct investment (FDI) (Leitão, 2010). As referred by Rugman and Verbeke (Rugman & Verbeke, 2008), FDI is one channel for the globalization of world economy. Multinational enterprises (MNEs) specifically acquire new markets, because these firms have specific advantages, or they want to acquire localization advantages. According to Caselli, Gatti and Visconti (2006) mergers and acquisitions aim to achieve a strategic transformation of the buyer and target companies, with the expectation of creating significant shareholder value. During the last two decades economic activities

have become increasingly global. Multinational Corporations (MNCs) have played a major role in this process of globalisation (Ranjan, 1997). The globalisation of business has initiated a search for worldwide competitive advantage in scale. The growth in FDI has been particularly marked since the mid-1980s with the world economy witnessing a surge in economic activities, with FDI being the most common means of serving foreign markets. A key characteristic of the growth in FDI since the mid-1980s is the form it has taken. FDI can take a variety of forms including the establishment of ‘green-field’ sites and joint ventures. However, the most prevalent form of FDI is via cross-border mergers and acquisitions (Gregory & McCorrison, 2005).

The topic is important because the majority of Indian corporates that were hitherto protected and limited to their domestic environment are now exposed to international markets. Owing to the changes in the global investment landscape, Indian economic policy reforms and the deregulatory FDI policy of the Government of India (GOI), the Indian corporates had to position themselves to face the risks and challenges not just at home but internationally as well.

The approach taken by Indian corporates towards OFDI's is different from their earlier approach (traditional) where their main focus was cost reduction, operational synergies, and short-term goals, whereas the more recent Indian acquisitions reflect a strategic and long-term focus (Lawrence, Locke, & Geeta.Duppati, 2010). The key issue to examine is whether the changes in approach by Indian corporates are likely to create value for the shareholders of the

acquiring firm. What matters is whether the stock market reacts positively to the news of an OFDI related M&A transaction announcement in the short run and, more importantly, whether the Indian acquiring firms add value to the stock in the long run.

1.2 Value creation and changes in the investors' expectations

The free flow of capital, technology and goods continues to drive an increasingly integrated world market. Value creation rests on the efficient combination of research, design, production, distribution, marketing, and support wherever these functions are located. Investors, too, are increasingly willing to invest in industry leaders no matter where they are domiciled. The fundamental trend toward globalisation remains very much intact and continues to favour consolidation to achieve global economies of scale. Against this backdrop, M&A can be an effective tool for accomplishing major corporate objectives (Mamdani & Noah, 2004).

The large number of overseas mergers and acquisitions of the 1990s² have fostered a view in the popular press that acquisitions destroy shareholder value, and the new, stricter corporate governance environment has led to greater calls for

²In the decade of the 1990s (through June 1997), 96,020 companies have come under new ownership worldwide (US corporates) in deals worth a total of US\$ 3.9 trillion - and that's just counting acquisitions valued at US\$ 5 million and over (Mamdani & Noah, 2004).

companies to return cash to shareholders through dividends and share repurchases to eliminate the risk that the cash will be used unwisely. Diversifying acquisitions in particular have fallen almost completely out of favour, reflecting in part the view of academic research that the potential for value creation lies mainly with more focused acquisitions (Mamdani et al, 2004).³

It is interesting to see the responses of the investors to the survey conducted by Mamdani *et al* in the US, 2004. Relating to a question on the corporate redeployment of cash, nearly 60% of the investors expressed a preference for either share buy-backs or dividend increases instead of reinvestment in the company. In response, companies in 2004 have announced the highest levels of future share buy-back programmes since 1997. The preference for the return of cash to shareholders emphasises investor reluctance to entrust management teams with the decision to deploy cash. Subsequently, the majority of investors preferred smaller vertical acquisitions or “bolt-on” acquisitions⁴ and fewer than 5% of investors favoured major acquisitions.

³For a comprehensive review of the academic findings, see Robert Bruner’s article entitled “Where M&A Pays and Where It Strays: A Survey of the Research“, (Mamdani & Noah, 2004).

⁴A bolt on acquisition is a term in private equity that refers to when a private equity-backed company acquires another company as a "bolt on" to enhance the private equity-backed company's value. This method has gained popularity particularly in down markets when private equity firms need another source to enhance the appeal of the company prior to sale.

The question facing today's executives is what kind of acquisition policy makes sense in an environment in which shareholders would rather have their money back and investors claim that major diversifying acquisitions have little credibility. Acquisitions for the sake of spreading risks are perceived as having almost no value to investors, who, if the theory holds, can generally manage such risks simply by diversifying their own portfolios. But there is little doubt that acquisition capabilities remain a critical component of sustainable long-term growth and profitability (Mamdani & Noah, 2004). Furthermore, investors assign premium valuations to companies that earn above-average returns through a combination of internal investment and judicious acquisition spending (Mamdani & Noah, 2004).

It is evident from finance theory that the goal of financial management is to maximise the current value per share of the existing stock (Ross, W.Westerfield, Jaffe, & Jordan, 2008). Driven by this, it is expected that common stockholders buy and retain stocks that adds value.

1.3 Significance of the study

The focus of the study is to examine if the Indian acquiring firms involved in thirty OFDI related M&As are able to create value to their shareholders as a result of OFDI related M&As. The present study takes a finance perspective and believes that corporate decisions are made to benefit and add value to the stockholders. It is obvious from the finance theory that good decisions will

increase the value of stock and poor decisions decrease the value of stock. Hence, the study examines the implications of OFDI related Indian corporates involved in M&As by looking at the stock performance in the stock markets. In other words, the success of M&A transactions are assessed by measuring the outcomes.

The positive short-run market return performance is considered as an indication of the expectations and confidence vested by the shareholders in management. This is in line with the views expressed in literature. According to Kothari and Warner (2004), though short run event studies are relatively straight forward and trouble free, it should be appreciated that they are at risk, since announcement returns tend to reflect the expectations of the investors. So, this study examines whether the expectations of investors, as pronounced through the short-run market returns, are attained in the long term.

It is evident from the review of literature presented in Chapter 4 that the Majority of the Indian studies documented in the literature are focused on examining the trends and patterns of OFDI in India, regulatory issues, motives and magnitude and composition of Indian OFDI. Notable among them is the emerging pattern of India's outward foreign direct investment under influence of state policy: a macro view (Singh & Jain, 2009; Nayyar, 2008; Rajan, 2000 & Kumar 2008).

The study of Kale (2009) considered only small scale companies which involved the investments less than USD\$48 million. The study of Gubbi, Aulakh, Ray, & Chittoor (Gubbi, Aulakh, Ray, & Chittoor, 2010) examined the post-acquisition performance for a sample size of 412. Their study did not examine the short term

announcement effect. The study of Zhu & Malhotra, (2008) considered short term and long term performance of Indian acquiring firms. But it is limited in scope in which it considered only service sector cross border mergers and acquisitions by Indian corporates in the US only.

The study is important because it is the first to assess the success of Indian corporates involved in outward foreign direct investments from the short term and long term perspective and across sectors. The study fills the gap in the literature in which it examines the aggregate performance and also looks into firm specific level performance.

1.4 Research Questions

Based on the details presented above, the present study formulates the following research questions:

- How does the stock market react to announcements of OFDI related M&As by Indian corporates?
- How successful are the Indian companies in creating value to the shareholder in the long run?

The present study examines wealth effects of OFDI related M&As from short-term and long-term perspectives considering the stock performance in the stock markets of the Bombay Stock Exchange (BSE). This will be one of the earliest

studies in India conducted from the context of OFDI related M&As by Indian corporates.

1.5 Research Hypotheses

Based on the research questions stated above, the background of the study in Chapter 2 and the review of literature presented in Chapter 4, the study proposes to test the null hypotheses presented below:

The research hypotheses are formulated from the short-term perspective and long-term perspective (more details in Chapter 5). From the short term perspective the study examines and tests the short-run stock market reactions following the announcement of the OFDI related M&As by the Indian corporates.

From the long-run perspective the study examines and tests wealth effects and value creation to the shareholders following the OFDI related M&As by the Indian corporates.

1.5.1 Hypotheses of the study (Short term and Long term perspectives)

The following hypotheses will be tested to assess the stock market reactions to OFDI-related Indian M&A announcements over the three-day event window:

- 1) H_0 : There are no abnormal returns on the announcement day (0) following the announcement of the OFDI related M&As.

The following hypotheses will be tested to assess the post-acquisition performance following OFDI related M&As with the following hypotheses:

- 2) Ho: There are no abnormal returns to the acquiring firms subsequent to the acquisition activity in the long run.
- 3) Ho: Operating performance in the post-acquisition period is no greater than the operating performance in the pre-acquisition period.

1.6 Research Method

The research methods used in the study to test the research hypotheses from short-term and long-run performance perspectives are given below. Likewise, the approach for explaining the variations in outcomes of empirical results at firm-specific level is also briefed below:

1.6.1 Research Method – Short-term perspective

The study uses event method to analyse short-run share price performance of Indian acquiring companies engaged in thirty OFDI related M&As. This study will concentrate on a short-run event study method, restricting analysis to a three day short event window (closely surrounding the announcement day). The event date for the study is set to be the date of announcement of a respective M&A event. This provides the best comparison of the various methods because the shorter the event window, the more precise are the tests. The estimation period of

the market model is 100 days. It includes returns on each security in the sample for 100 days which starts from five days prior to the announcement of the event.

The data is obtained from the CMIE data Prowess and Thompson Banker. The announcement dates obtained from CMIE are cross examined with the daily newspapers in India. The data used involves the firm stock returns and market returns on the Bombay Stock Exchange (BSE).

1.6.2 Research methods from long-run perspective

Post-acquisition performance is critical to the success of OFDI related M&A transactions. Hence, the study considers the long-term perspective. The present study measures the long-run performance of the thirty OFDI related M&As by Indian companies. The study considers a maximum 36 months following the acquisition event month. The period of the study signifies acquisition activity and covers thirty OFDI related M&As by Indian corporates during 2000-2008. The estimation period is 24 months prior to the event month.

The present study pursues two different approaches to test the first null hypothesis and assess the long-term performance of the OFDI related M&A firms. They are Buy-and-Hold Abnormal Return (BHAR) and Cumulative Abnormal Return (CAR) methods. The results obtained are appraised by parametric tests and non-parametric tests. The method chosen is in line with the prior studies (Ikenberry, Lakonishok, & Vermaelen, 1995), (Kothari & Warner, 1997), (Lyon, Barber, &

Tsai, 1999) and (Zhu & Malhotra, 2008). The market returns of the Bombay Stock Exchange (BSE) Index and the monthly returns of the firm are used.

The second approach calculates long-run abnormal returns considering the Buy-and-Hold strategy. The study uses a control firm approach and matches the OFDI related Indian company's abnormal market return with the control firm that is chosen from the BSE Index based on a set criteria (more details in Chapter 5).

The present study employs Tobin's Q to test the second hypothesis relating to the operating performance of the sample firms. The study uses ex-ante and ex-post approaches and considers three years pre-event and three years' post-event periods. This is in line with prior studies (Zhu & Malhotra, 2008). The study also examines and tests the changes in operating performance in the pre- and post-acquisition period. For this purpose the study considers: Sales, Profit after Taxes (PAT), Dividends and Total Assets. The study also employs the wealth relative method proposed by Ritter (1991) to explain the performance of the firms in the long term. The data for the study are collected from the Centre for Monitoring Indian Economy (CMIE), Thomson Banker, Data Stream, Factiva, and the BSE website. The test results are processed using E-views and Stata software applications.

1.6.3 Research methods for explaining the empirical results

The explanations for variations in outcomes in the empirical results are presented in Chapter 7. Understanding the corporate strategy is important in order to

explain the empirical findings. For this purpose the drivers behind OFDI related M&As by the Indian corporates will be identified based on the secondary sources. The qualitative data will be obtained from the secondary sources, such as corporate reports, corporate official media releases, daily newspapers and company online websites.

The possible reasons for variations in outcomes at firm specific level will be given from the short-term and long-term perspectives based on the secondary data released into the market at the time of the proposed OFDI related M&As. Towards the end of the study a comparison is made between the empirical findings and the prior findings from mature markets. This is to show how context, situation and environment for OFDI related M&As by Indian corporates are different from those of mature markets.

1.7 Organisation of the study

The study is made up of eight chapters as shown below:

Chapter 1: Introduction

This chapter outlines and presents the structure of the research thesis and includes the background to the study, its significance, research questions, research hypotheses, research methods and organisation of the study. This chapter is considered as the basis for the chapters that follow.

Chapter 2: Background of the Study

This chapter presents an overview of the changing investment patterns across the globe and the shift in the Indian Foreign Direct Investment (FDI) dynamics. The study examines the changes in the Indian government policy relating to FDI issues, their impact on Outward Foreign Direct Investment (OFDI) related activities with special reference to mergers and acquisitions by the Indian corporates. This chapter will be of prime consideration and a building block for Chapters 6 and 7 which analyses and explains the empirical findings and variations in outcomes.

Chapter 3: Internationalisation: A Theoretical Perspective

This chapter presents the theories relating to internationalisation from the global perspective. From the context of OFDI related M&As this chapter briefs five theories. These theories will elucidate how some components, such as ownership competitive advantages, institutional environment, stock-holders value-enhancing activities, brownfield investments and absorptive capacity will influence the corporates when making considering OFDI related M&As. It helps in understanding the emerging Indian corporate dynamics relating to OFDI related M&As.

Chapter 4: Review of Literature

This chapter presents a review of literature relating to Mergers and Acquisitions (M&As). The literature review focuses on the empirical research findings in M&As from the mature markets and emerging markets (with a special focus on Indian findings). It includes various studies undertaken to examine the effects of M&As in terms of value creation from short term and long term perspectives.

This chapter is important because it helps to identify the gaps in the literature, raises some research questions and develops research hypothesis. It also helps in understanding and explaining the empirical findings from the short and long term perspectives following the acquisition announcements and post-acquisition performance following the OFDI related M&As by Indian corporates as covered in Chapters 6 and 7.

Chapter 5: Research Method

This chapter presents and discusses the approaches and methods used to measure the announcement effects of OFDI related M&As by Indian corporates in terms of value creation from the short-term perspective. It also presents and discusses the approaches and methods used to measure the effects of OFDI related M&As in terms of value creation from the long-term perspective following the acquisitions. This chapter is significant because the short-term and long-term performance of the OFDI related M&As by Indian corporates will be tested and examined using the models and approaches presented in this chapter. This chapter also outlines the

approach for explaining the variations in outcomes at firm-specific level based on the empirical findings. It also presents the approach to identify the drivers behind OFDI related M&As.

Chapter 6: Empirical findings from short-term and long-term performance

This chapter analyses the market reactions to the announcements of OFDI related M&As by Indian corporates. It examines the short-term stock performance for a sample of thirty OFDI related M&As by Indian companies involved in cross-border mergers and acquisitions in the period 2000 – 2008.

This chapter also presents the empirical results for long-term stock return performance of the OFDI related Indian corporates, subsequent to an acquisition event. This chapter addresses the question: How successful are the Indian companies in creating value to the shareholder? It presents the results of the thirty OFDI related Indian corporates involved in acquisition activity and assesses them. This chapter also explains the empirical findings.

Chapter 7: Theoretical Explanations of the Empirical Findings at Firm-Specific Level

This chapter gives theoretical explanations for the differing outcomes in the empirical findings at firm specific level based on prior findings and theory. This approach is consistent with positivistic methodology and helps to explain the firm-specific empirical findings in a better way, which is not otherwise possible by quantitative analysis and hypothesis testing. This approach helps explain the

underlying facts of certain elements in the empirical results by linking theory with the prior findings. By giving possible theoretical explanations to the differing outcomes, the chapter also provides testable propositions for future empirical researchers.

Chapter 8: Conclusions

This chapter outlines the major contributions of the thesis, its limitations and provides recommendations for future research.

Thus, having presented the structure of the thesis, the next chapter will provide background to the study from the Indian context.

CHAPTER 2: BACKGROUND OF THE STUDY

2.1 Introduction

This chapter presents some background information to the empirical study of Indian companies engaged in Outward Foreign Direct Investment (OFDI). Context is important to understand the changing dynamics of overseas direct investment. The chapter illustrates the emergence of global organisations in India and how the forces of globalisation have changed the merger and acquisition activity of Indian companies. India is becoming a substantial new player in the globalised economy and the growth in overseas investment activity by Indian corporates is documented.

Importantly, the chapter examines the changes in Indian government policy relating to the FDI issues, indicating their impact on inwards and outward flows of FDI. In particular, the chapter illustrates the impact of government liberalisation policies on the overseas investment activities with special reference to mergers and acquisitions by the Indian corporates. The thirty cases of mergers and acquisitions are introduced and which are the subject of empirical analysis (in Chapter 6). Some details are provided on the size of the investment, plus information on the acquirer and the acquired companies, and the location of the investment. Such information will assist the explanation of the empirical results later in the thesis (Chapter 7).

2.2 Regulatory framework of Indian government policy relating to OFDI

According to Ranjan (1997), the new economic policy adopted by the Government of India in mid-1991 was based on the twin principles: First, deregulation of the government's economic interventionist functions and second, encouraging competition. The main thrust of this policy was to ensure free flow of investment, product, technology and managerial personnel across national borders leading to greater integration of the Indian economy with the rest of the world. Various Indian regulations have been changed extensively to facilitate liberalisation and deregulation. The areas in which changes are made effective include: industrial licensing, monopoly and restrictive trade practices, foreign exchange regulation, import and export, capital markets, external commercial borrowing, the Companies Act and convertibility of the rupee in current accounts.

The Indian policy regime, guided by national development priorities, allows Indian enterprises to invest abroad for attaining economies of scale and also to remain as competitive as their counterparts in other nations. Three stages are identified in terms of Indian OFDI policy.

The first phase (1974-1990) of Indian economic development under a restrictive policy regime (to invest abroad) was aimed at boosting domestic investment,

which enabled Indian enterprises to learn adaptive capabilities⁵. The policy encouraged the formation of joint ventures with international companies. But the policy stated that Indian enterprise equity participation should be in the form of exporting indigenous plant and machinery and also technical know-how from the existing Indian joint ventures. Due to the scarcity of foreign exchange, the cash remittance of capital to overseas joint ventures was discouraged but provision was made to allow in exceptional cases (Nayyar, 2008).

This policy increased Indian investment flows abroad in the second half of the 1970s. India emerged as the third largest exporter of industrial OFDI among the developing countries (Lall, 1986). The import substitution (a national economic strategy which emphasizes the replacement of imports by domestically produced goods) regime enabled Indian companies to adapt to the technology, capital goods fabrication capability and human resources. This policy provided opportunities to Indian companies to extend their business abroad, which boosted Indian outward foreign direct investment. The magnitude of Indian investment abroad declined in the early 1980s and a turnaround in OFDI occurred again towards the mid-80s. Indian overseas investment largely remained concentrated in the developing countries in the 1970s and 1980s. However, some change has been noticed since

⁵ Adaptive capacity is the capacity of a business firm to adapt to the changing environment.

the mid-80s where there has been increase in investment by Indian corporates in the advanced industrial countries (N. Kumar, 1995).

The first phase of India's outward foreign direct investment, which spanned over 1974 to 1990, was quite restrictive as outward foreign investment was possible only in the form of minority owned joint ventures.

The second phase (1991 – 1999) of Indian economic development encouraged Indian companies to invest abroad. An automatic route⁶ for Indian investment abroad was adopted and overseas investments up to US\$2 million were permitted. The restrictions on cash remittances and minority ownership were removed. The limit on overseas investment through the automatic route was increased to US\$4 million in 1995. An important change with regard to the approval of proposals of overseas investment was shifted from the Ministry of Finance to the Reserve Bank of India (RBI). The RBI was vested with approval of amounts up to US\$15 million and the approvals beyond US\$15 million remained under the purview of the Ministry of Finance (Nayyar, 2008).

⁶ Procedure under automatic route - FDI in sectors/activities to the extent permitted under automatic route does not require any prior approval either by the Government or RBI. The investors are only required to notify the Regional Office of the RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares of foreign investors (Source: www.rbi.org.in).

The third and most recent phase (2000-2008) of fast economic growth saw expansion of Indian enterprises in domestic and international markets while competing with the global brands and multinational enterprises. In the years 2000 and 2002, the upper limit for automatic overseas investment approval was raised to US\$50 million and US\$100 million respectively. The prior approval from RBI was dispensed with and firms were also allowed to obtain the remittances through any authorised foreign exchange dealer. In 2005, banks were permitted to lend money to Indian companies for acquisitions through equity in overseas joint ventures, wholly owned subsidiaries or other overseas companies as strategic investment. In the year 2007, the limit of overseas investment of Indian companies was increased to 300% of net worth in June 2007 and further raised to 400% of the net worth of a company in September 2007.

The policy changes with regard to Indian overseas investment from the year 2004 onwards are described as liberal (Nayyar, 2008). The liberal phase of the policy changes are described in Appendix table-1.

The overseas investment policy was aimed to bring transparency to overseas investment processes and also to help Indian conglomerates analyse their rights and opportunities in the international markets.

2.3 Trends and Patterns of Indian Outward Foreign Direct Investment

Although Indian corporates have been investing overseas for decades, there has been a marked jump in such investments since the 1990s. While India continues to maintain controls on most types of capital outflows for prudential reasons (Prasad 2007) it has been steadily liberalising overseas investments by Indian companies.

It is evident from Table 2.1 that both outward and inward flows of investment in the Indian economy increased quite rapidly. The average foreign direct investment inflows during the 1995-2007 period were US\$6,771.23 million. The foreign direct investment inflows increased during the period under consideration with the exceptions of 1998, 1999 and 2003.

India's outward push can be divided into the pre-liberalisation (before 1990) period and the post-liberalisation (after 1990) period. Pradhan (2004) rationalises the initial OFDI push by Indian firms as follows: in the pre-1990's period, there were mainly two push factors that led Indian firms' entry into foreign markets; (i) the stagnant domestic market and (Davidson, Garrison, & Henderson, 1987) policy restrictions on large firms' growth. During this period privately-owned large Indian corporates which were desperate to grow found themselves in disadvantageous situations created by the Indian policy regime that included the Monopolies and Restrictive Trade Practices Act, Foreign Exchange Regulation Act, licensing regulation and reservation policies for public-owned and small

scale sectors. A slow growing domestic market further added to the drive of these Indian firms to seek new markets in developing and developed countries.

Table 2-1: India's Foreign Direct Investment Inflows and Outflows (US \$ Millions)

Year	Inward FDI	Outward FDI
1995	2125	119
1996	2525	240
1997	3619	113
1998	2633	47
1999	2168	80
2000	3585	509
2001	5472	1397
2002	5627	1669
2003	4323	1879
2004	5771	2179
2005	7606	2978
2006	19622	12842
2007	22950	13649
2008	27300	20947

Source: UNCTAD (2008) and RBI report (2009).

It is evident from Table 2.1 that India experienced annual average growth rate

of

1399% in outward foreign direct investments between 2001 to 2008. It is also evident that growth in OFDI in M&As in India is partly attributable to factors implicit in the liberalisation of the policy regime by the Indian government as discussed above.

The information in Table 2.1 further reveals that a wide gap which is seen between the Inward FDI and OFDI flows before 2000, has narrowed from 2001 onwards. The period 2001-2008 has been described as the arrival of Indian companies in developed countries and expanded Indian investment abroad (L. Singh & Jain, 2009).

2.4 Top 30 Foreign Acquisitions by Indian Firms 2000-2008

Until the year 2000, the incidence of Indian entrepreneurs acquiring foreign enterprises (in developed countries) was not so common. The situation has undergone a remarkable change since 2002. A growing number of Indian enterprises are beginning to see outward investments as important aspects of their corporate strategy and are emerging as multinationals (N. Kumar, 2006). The Indian corporates acquired a number of strategically significant companies like Corus, Novelis, and Betapharm, etc. Table 2.2 presents the 30 major cross-border M&A transactions by Indian corporates. The striking feature of these M&As is that the majority of the target companies are from developed countries. It is observed that a substantial portion of the total M&A activity in India was during

2006. Another notable feature is that almost 99% of acquisitions are settled in cash.

Table 2.2 provides information on the top thirty foreign acquisitions by Indian firms during 2000-08. Out of the top thirty foreign acquisitions by Indian firms, nine foreign acquisitions belonged to the Tata group of companies and three belonged to the Indian public sector companies (ONGC-Brazil; ONGC-Sudan and HPCL) and the remaining eighteen corporates belonged to private sector.

Table 2-2 : Top Thirty Foreign Acquisitions by Indian Firms from 2000 to 2008

S.No	Acquirer	Target	Sector	Country	Year Established	Year of Acquiring
1	Tata Steel	Corus	Steel	UK	1907	2007
2	DRL	Betaphar Arzneimittel GmbH	Pharma & Healthcare	Germany	1984	2006
3	Ranbaxy	Terapia SA	Pharma	Romania	1961	2006
4	Hindalco	Novelis	Aluminium	US	1958	2007
5	ISPAT	Finmetal Holdings	Steel	Bulgaria	1984	2005
6	Tata Tea	Tetly Group	Food & Beverages	UK	1983	2000
7	Wipro	UNZA Holdings Ltd	IT Services	Singapore	1945	2007
8	MATRIX	Doc Pharma NV	Pharma & Health Care	Belgium	1984	2005

9	Ballarpur	Sabah Forest Industries	Pulp & Paper	Malaysia	1932	2006
10	Opto Circuits	Eurocor GmbH	Medical Equipment	Germany	1992	2004
11	United Spirits	White & Mickey	Spirits	UK	1951	2007
12	HPCL	Kenya Petroleum Refinery	Petroleum	Kenya	1952	2005
13	Tata Consultancy Service (TCS)	Financial Network Services	IT Services	Australia	1968	2005
14	United Phosphorous	Cerexagri	Fertilizers	Europe	1969	2006
15	Tata Coffee	Eight 'o' Clock Coffee	Food & Beverages	US	2000	2006
16	M&M	Stokes Group Ltd	Forging	UK	1945	2006
17	ONGC – Videsh	Petrobas	Petroleum	Brazil	1989	2006
18	ONGC – Videsh	Greater Nile Oil Project	Petroleum	Sudan	1989	2002
19	Videocon International	Thomson SA (CRT business)	Consumer Goods	Europe, China	1987	2005
20	M&M	Schoneweiss & Co.GmbH	Forging	Germany	1945	2007
21	Sasken	Botania Hightec	IT	Finland	1989	2006
22	VSNL (Tata Communications)	Teleglobe International	Telecom	US	1986	2005

23	Tata Motors	Daewoo	Automotive	Korea	1945	2004
24	Wochdardt	Negma Laboratories	Pharmaceuticals	France	1977	2007
25	Lupin	Kyowa	Pharma & HealthCare	Japan	1968	2007
26	Piralmal Healthcare	Morpeth	Pharma & HealthCare	UK	1933	2006
27	Tata Steel	Millennium Steel	Steel	Thailand	1907	2006
28	Tata Motors	Jaguar & Land Rover	Automotive	UK	1945	2008
29	Sun Pharma	Valeant Pharmaceuticals	Pharma & HealthCare	Hungary	1983	2006
30	Tata Chemicals	Bruner Mond Group	Chemicals	UK	1939	2006

Sources: Compiled from Indian Business Reports and Business Newspapers

Table 2.2 further reveals that out of the top thirty foreign acquisitions by Indian companies, twenty three acquisitions are in developed countries and seven acquisitions are in the other parts of the globe. The sectoral distribution of the top thirty foreign acquisitions by Indian companies shows that the largest number of foreign acquisitions belong to pharmaceutical & healthcare (8); and metals and mining and automobiles (8); information technology and telecommunication (4); oil, gas and energy (3); food & beverages (3); chemicals and fertilisers (2); and manufacturing and processing (2). Furthermore, the table also reveals the transfer of ownership (or effective control) control from these foreign acquisitions.

Table 2-3: Transaction Settlement of 30 OFDI related Acquisitions by Indian corporates from 2000 to 2008

S.No	Acquirer	Target	Stake	Settlement (US \$ Million)
1	Tata Steel	Corus	100	12100
2	DRL	Betaphar Arzneimittel GmbH	100	570.3
3	Ranbaxy	Terapia SA	97	324
4	Hindalco	Novelis	100	6000
5	ISPAT	Finmetal Holdings	71	400
6	Tata Tea	Tetly Group	100	431.2
7	Wipro	UNZA	100	246
8	MATRIX	Doc Pharma NV	95.5	234.7
9	Ballarpur	Sabah Forest Industries	77.8	209
10	Opto Circuits	Eurocor Gmb H	60	600
11	United Spirits	White & Mickey	100	595 million Pounds

12	HPCL	Kenya Petroleum Refinery	67	500
13	Tata Consultancy Service (TCS)	Financial Network Services	100	26
14	United Phosphorous	Cerexagri	100	NA
15	Tata Coffee	Eight ‘o’ Clock Coffee	100	220
16	M&M	Stokes Group Ltd	98.6	12 million Pounds
17	ONGC – Videsh	Petrobas	15	1400
18	ONGC – Videsh	Greater Nile Oil Project	25	766.1
19	Videocon International	Thomson SA (CRT business)	100	100
20	M&M	Schoneweiss & Co.GmbH	90.47	NA
21	Sasken	Botania Hightec	100	210
22	VSNL	Teleglobe International	100	254.3
23	Tata Motors	Daewoo	100	102
24	Wochardt	Negma Laboratories	100	265

25	Lupin	Kyowa	100	248 crs (INR)
26	Piralmal Healthcare	Morpeth	100	na
27	Tata Steel	Millennium Steel	100	167
28	Tata Jaguar	Jaguar & Land Rover	100	2.3 billion
29	Sun Pharma	Valeant Pharmaceuticals	100	NA
30	Tata Chemicals	Bruner Mond Group	63.5	508

It is evident from Table 2.3 that among the top thirty foreign acquisitions, 100% ownership was reported in eighteen foreign acquisitions, followed by 97% to 51% in nine foreign acquisitions, and three corporates have less than 30% in the joint ventures.

2.5 Conclusions:

It is evident from the above presentation that the Indian Government's approach towards OFDI underwent drastic changes with a shift from a regulatory OFDI policy environment to a de-regulated policy environment. The transformation from the restrictive policy regime in the first phase to the liberalised policy regime in the third phase is noteworthy. The policy changes enabled the Indian corporates

to revise their investment strategies. This resulted in increased OFDI related M&As by Indian corporates.

This study examines the effects of the OFDI related M&As by Indian corporates. The chapter that follows will present the theories and prior findings relevant to internationalisation. This helps to understand the Indian corporate strategies.

CHAPTER 3: INTERNATIONALISATION: A THEORETICAL PERSPECTIVE

3.1 Introduction

This chapter presents the theories relating to internationalisation from the global perspective. From the context of OFDI related M&As, this chapter briefs five theories. These theories will elucidate how some components like: ownership competitive advantages; institutional environment; stock-holders value-enhancing activities; manager's self-interested motives, brownfield investments and absorptive capacity will influence the corporates when making decisions about OFDI related M&As. The theories assist our understanding of the emerging Indian corporate dynamics relating to OFDI related M&As.

The rationale for OFDI related M&As by firms is to create value to their investments. In the context of an open market economy, the competitiveness of firms refers to their ability to survive and grow while attaining their ultimate objective of maximising profits (and retaining or improving market share), and to adapt to changes in their internal and external environment in a way that guarantees their long-term operation. As per the UNCTAD (2006) report, developing-countries' multinational companies (MNCs) are able to acquire competitive advantages, including proprietary expertise and technology, which allow them to operate in overseas environments and compete effectively with foreign firms. Many of these MNCs possess sophisticated and distinctive advantages that they have created and nurtured over many years. There are also complementarities in MNC's of developed and developing-countries. For

example, in some electronics industries developed-country MNCs have retained R&D, product design, branding and sales of a product, but have disbursed production to contract manufacturers. Finally, a number of developing-countries MNCs are able to benefit from home-country locational factors, including access to natural resources such as oil (often allied to state ownership) and access to cheap funds, which translate into significant advantages for these firms (UNCTAD, 2006).

Firms often use acquisitions to reconfigure their mix of products and services and/or to expand their product offerings to boost growth (Capron, Dussauge, & Mitchell, 1998), (Krishnan, Joshi, & Krishnan, 2004). When two firms merge, they can combine and reconfigure their products to create a combination of product portfolios that neither firm could create alone (Karim & Mitchell, 2000).

3.2 Theories relating to Internationalisation

3.2.1 Ownership, Location and Internationalisation resource-based view

The theory of the international operation of the firm posits that the ownership of some unique advantages having a revenue generating potential abroad when combined with the presence of internalisation and locational advantages leads to outward FDI (Caves, 1971). Enterprises based in the industrialised countries have emerged as multinational enterprises on the strength of ownership advantages derived from innovatory activity that is largely concentrated in these countries. According to Ownership, Location and Internationalisation theory, a prerequisite

for a firm becoming international is the ownership of unique advantages (such as accumulated learning and managerial skills, technological effort, product differentiation, cost effectiveness of processes, firm size, export orientation, technological dependence and local ownership) that outweigh the disadvantages of being foreign in overseas markets.

Dunning (1981, 2001) draws together elements of previous theories to identify ownership, location and internationalisation advantages that motivate internationalisation. Ownership advantages are firm-specific factors such as superior proprietary resources or managerial capabilities that can be applied competitively in a foreign country (Barney, 1991). Location advantages can account for decisions to invest in foreign countries that offer superior market or production opportunities to those available elsewhere or opportunities to secure valued inputs. Internationalisation may accrue to firms that can reduce transaction costs by investing abroad so as to undertake transformation or supporting processes more effectively that can be achieved through market transactions. The benefits of internationalisation depend on ownership capabilities and in general this has been a dominant explanation for the emergence of internationalisation by firms. FDI occurs when a firm chooses to exploit the monopolist advantages of its intangible assets through direct production rather than exporting from its home country or licensing the advantages to a third party abroad. The existence of impediments to a free flow of products between nations, such as tariffs and non-tariff barriers and market failures in the arm's-length transactions in intangible

assets, tends to decrease the profitability of exporting licensing relative to FDI. This influential perspective is mainly developed on the basis of studies of large western Multinational Enterprises (MNEs), which suggests that internationalisation is motivated by a firm's wish to exploit its existing ownership advantages (Child & Rodrigues, 2005). The rise of MNC enterprises has been attributed to efficiency advantages in the management of inter-dependencies concerning know-how, reputation, the value chain and marketing through internationalisation. Thus conventional view of mainstream theory of internationalisation focuses on overseas possibilities of assets exploitation. The mainstream perspective in international business assumes that firms will internationalise on the basis of a definable competitive advantage that allows them to secure enough to cover the additional costs and risks associated with operating abroad (R.E. Caves, 1971).

The ownership advantages for firms stem from better or newer technologies, embedded managerial capabilities and established brand names. The location advantages for firms arise from market opportunities, cheaper inputs and trade barriers in host countries. The international quest of firms reflects a decision to source inputs or capture markets through ownership or control rather than trade. In sum, this literature argues that the internationalisation of firms through investments, mergers or acquisitions is driven by the monopolistic or oligopolistic power of these firms (Nayyar, 2008).

According to Mathews (2006), the seeking ownership advantages through ownership, location and internationalisation approach may not be entirely appropriate for an analysis of internationalisation of firms from developing countries that often seek to invest abroad to secure a competitive advantage they do not possess. Recent explanations of outward foreign direct investment from latecomers to industrialisation in East Asia stress this dimension. It is argued that firms from developing countries invest abroad to develop linkages with the world market in order to leverage strategic resources that in turn promote learning within the firm. In other words, firms from developing countries may use outward foreign direct investment not as a means of exploiting existing competitive advantage, but as a means of realising and augmenting potential competitive advantage.

Latecomer firms do not possess many intangible strategic resources relative to their global rivals and therefore are eager to access superior resources and skills in order to compete successfully (Rui & Yip, 2008). These companies want to combine their own advantages developed at home with other new assets available in foreign countries. Their own advantages lie mostly in small-scale and labour-intensive production and in the ability to adapt quickly to changes in products and production processes (Makino, Lau, & Yeh, 2002). Since required complementary inputs, such as more advanced products and technology, belong to the mature firms in advanced countries, latecomer firms tend to prefer developed economies

as their asset-seeking location. These assets can only be accessed through a takeover of these firms (Dunning, 2001).

In addition, through an acquisition, a firm can gain access to intangible as well as tangible assets and thus is able to buy not only a single asset but also an entire knowledge system under a unified control (Rui & Yip, 2008).

3.2.2 Institution-based view

The institution-based view of strategy research adopts the core proposition of institutional economics, that variation in national institutional environments enables and constrains different strategic choices such as product and geographic diversification (Peng & Delios, 2006). The companies' internationalisation strategies are also shaped by the home institutional environment. This has been shown by Buckley (2007) in recent research on the determinants of Chinese Outward Foreign Direct Investment (OFDI). Institutional constraints in emerging economies tend to be much stronger than those in developed countries and include the substantial influence of governments on companies' strategy decisions (P. Deng, 2008).

Active government involvement in business via ownership or through the regulatory framework is a rather common phenomenon in most of the latecomer and transition economies, especially in Asia (Child & Rodrigues, 2005). In contrast to the market-oriented model of the West, the emergence of Japan and South Korea was much more related to the intervention of their governments,

which orchestrated oligopolistic competition among large-scale companies (Sutherland, 2003). The development-state model of the newly industrialised economies (NIEs) in East Asia incorporates development oriented policies and applies an interventionist set of industrial policy instruments (Liu, 2005; Nee, Opper, & Wong, 2007). The experience of the Asian latecomer firms shows that government support has been a decisive factor in these companies' successful internationalisation (Hoskisson, Lau, & Wright, 2000). Furthermore, the role of government in transition economies relates to the definition, diffusion, and enforcement of the norms and requirements of the companies' business conduct. The government can restrain or facilitate the internationalisation of firms through different policies.

3.2.3 Economic Theory view

Economic theory generally offers two competing thoughts about the efficacy of M&As as corporate restructuring strategies. First, the neoclassical theory or the value-maximising theory assumes M&As' consequences as the motivation for M&As, and views corporate M&As as value-enhancing activities in which managers work to achieve the shareholders' wealth maximisation goal for the firm. (Franks & Hariss, 1989). Second, in contrast, it is managerial theory or non-value maximising theory, which views mergers as the extension of managers' own potential interests, undertaken for the purpose of increasing their own wealth or prestige by managing a larger post-merger entity (Roll, 1986). The market for

corporate control is best viewed as an arena in which managerial teams compete for the rights to manage resources (Jensen & Richard, 1983).

While outward FDI related M&As can contribute to a firm's competitiveness, it is also subject to risks inherent in projects undertaken abroad. First, a newly established foreign affiliate has the disadvantage of being foreign, compared to established enterprises in a host economy (Hofstede, 1980 & Roth & O'Donnell, 1996). Second, companies face higher levels of complexity as they establish their presence in an increasing number of locations. Additional needs to integrate and coordinate activities and concomitant organisational and environmental requirements may eventually exhaust managerial capacity (Lall, 1986).

3.2.3.1 Free cash flow theory and CEO-hubris theory.

Jensen (1986) proposes a theory of 'free cash flow' to explain why managers may undertake projects which yield negative benefits to shareholders. According to this theory, free cash flow (FCF), which is cash flow in excess of that required to fund the firm's positive Net Present Value (NPV) projects, should be paid out to shareholders. This will in turn reduce the resources controlled by management, and therefore increase the amount of monitoring necessary for the firm to acquire new capital.

Jensen (1988) argues that take-overs benefit both shareholders and society. Central to this view is the claim that acquiring firm shareholders earn positive returns on hostile takeovers and roughly zero in mergers. This view of acquiring

firm wealth gains has been undermined by the findings of recent research into the long-run performance of acquiring firms (Agrawal & Jaffe, 2000). These results pose a major question for finance and management researchers: why is it that firms, on average, undertake negative NPV acquisitions? Jensen (1988, p. 34) makes a specific and testable claim for this theory: Free cash flow theory implies that managers of firms with unused borrowing power and large free cash flows are more likely to undertake low-benefit or even value-destroying mergers.

Roll (1986) presents the theory of Hubris. The hubris hypothesis posits that acquisitions are motivated by managers' mistakes in the absence of any synergistic gain. Berkovitch and Narayana (1993) find support for this argument in their study by analysing the target, acquirer and total gain from the deal. Hayward and Hambrick (1997) have also identified CEO hubris as one of the major motives behind an acquisition and have shown that CEO hubris leads to higher acquisition premiums.

The hubris hypothesis addresses the behavioural explanation for corporate acquisitions. Roll (1986) argues that management of the acquiring firm are infected by overweening pride and arrogance (hubris) and thus persist in a belief that their own valuation of the target is correct, despite objective information that the target's true economic value is lower.

3.2.4 Resource-Based View

According to the resource-based view, post-acquisition resource redeployment and the resulting product mix are important sources of value creation in acquisitions, and complementary differences in product strategies between merging firms can enhance the consolidated firm's chances of creating a product portfolio that may not be easily replicated by other firms (Karim & Mitchell, 2000). The theory also views that a firm's internationalisation strategy and performance depend on the existence of unique tangible and intangible resources in its home country which give it a competitive advantage compared to firms in the host country. Intangible resources such as management know-how, research and development (R&D) capability, brand names, and proprietary technologies are crucially important (Barney, 1991; Teece, D., Pisano, G., & Shuen, A. (1997).

Companies with strong competitive advantages often try to exploit their strength by creating a clone of the parent in the host country (Mathews, 2006). According to Mathews, greenfield investment is the preferred mode of entry as it is the most effective way to transfer the investing company's advantages to overseas markets and to introduce the firm's best practices. Greenfield FDI is one particular form of a market penetration. Transnational Corporations (TNCs) consider this option when their firm-specific advantages are strong enough to cover the additional transaction costs arising from the operation in the foreign market, and when location advantages are abroad. Nevertheless, the fact remains that the additional costs of the liability of foreignness (Zaheer, 1995) still have a negative impact on

the performance of the greenfield venture. Slangen and Hennart (2008) argue that greenfields, unlike acquisitions, increase substantial external conformity costs (due to the need to adapt to the local environment) because they suffer from both a liability of newness and a liability of being a foreigner.

According to Pennings, J.M., Barkena, H and Douma, S (1994), greenfield investments are riskier than acquisitions, because as new projects they start at the beginning of the learning curve (the liability of newness argument). The situation might change for the better if the TNCs, instead of practising greenfield FDI, acquire an existing local firm that is well-established in the market [e.g., Demirbag, Tatoglu, & Glaister, (2008)]. They may then try to combine the subsidiary's advantages with their own core abilities, thereby augmenting the overall Firm Specific Advantage system (Dunning, 2000). The new combined entity may then be able to use these synergies to better overcome the transaction cost barrier and to improve its position on the local market (Anand & Delios, 2002 & Dunning, 2000). In the case of Greenfield FDI, the parent company is relying entirely on its own capabilities. As such, the typical greenfield subsidiary is determined by the parent company's FSAs and its organisational routines (Barkema & Vermeulen, 1998 & Hennart & Park, 1993).

Mamdhani and Noah (2004) investigated the pathways to success in M&As through a survey approach by collecting the views of investors relating to cash deployment and preferences of size related issues. They concluded that there is no single definition of a successful M&A strategy, although discipline and control

are clearly essential elements. Their study states that investors are not misled by acquisitions undertaken for purposes of empire-building. The investors are sceptical of management's ability to use excess free cash flow for acquisitions and would rather have their money back unless it can be demonstrated that the cash will be used only to purchase targets with appropriate risk-adjusted projected returns. But these returns do not have to be delivered the next quarter. Even in this new era of strong corporate governance and enhanced transparency, successful acquirers will be able to justify acquisitions on strategic as well as financial grounds. While a strategic operating vision is essential, sound execution is also critical and requires an uncompromising financial approach to portfolio management. A reputation for effective post-merger integration is key to gaining investor acceptance of M&A activity. In general, acquisitions must be treated as commitments of scarce investor capital and, as with any capital investments, should not be pursued when prices exceed projected valuations.

Companies with weak competitive advantages, by contrast, must acquire new resources that they cannot generate themselves. Under these circumstances, a foreign acquisition is more effective as it allows the firm to extract such assets from the acquired company (Homburg & Bucerius, 2005). Cross-border acquisitions, by taking advantage of the firm-specific advantages of the local firm, might also be able to react more quickly to changing market conditions and to strategic moves of the competitors than a greenfield venture could. At the time of market entry, in particular, greenfield investments need more time for planning,

construction and market positioning than takeovers. Consequently, they may lose precious time in relation to cross-border acquisitions before they can develop their operations (Anand & Delios, 2002; Carow, Heron, & Saxton, 2004; Hennart & Park, 1993 & Larimo, 2003). Thus, foreign rivals opting for cross-border acquisition gain time to react and to challenge market entry of competitors.

The internationalisation of firms from developing countries is driven by a wide range of factors such as market access for exports, horizontal or vertical integration, delivery of services, capturing international brand names, access to technology, sourcing raw materials and global leadership aspirations (Caves, 1989).

3.2.5 Organisation Theory View

According to the literature of organisation theory, the absorptive capacity is largely a function of the level of prior related knowledge, which takes the forms of basic and recent scientific and technological developments in a given field (Cohen & Levinthal, 1990). Such related knowledge is used by a firm to further develop capability.

For successful strategic asset-seeking OFDI, firms from the newly industrialised economies (Markides & Oyon, 1998) need to possess related expertise prior to engaging in FDI in developed countries. The asset-seeking perspective of FDI suggests that such expertise would work as an absorptive capacity that facilitates further development of capabilities. In support of this perspective, Van Hoesel

(1999) found that NIE firms that invested in developed countries tend to possess superior technology and marketing advantages over other domestic firms. Similarly, Chen and Chen (1998) found that Taiwanese firms investing in the USA tended to have a greater R&D intensity and a higher rate of sales growth than those investing in less developed countries. The firms might differ in their capabilities to evaluate, acquire, and integrate strategic assets from external sources. This difference would lead to a varying degree of the likelihood that the firms would engage in strategic asset-seeking FDI in developed countries (Makino, et al., 2002).

3.2.6 Asset-Exploitation and Asset-Exploration Perspective

According to Makino, Lau and Yeh (2002), from the asset-exploitation perspective, FDI is viewed as the transfer of a firm's proprietary assets across borders. They argue that firms from newly industrialised economies engage in FDI in developed countries (DC) when they possess certain forms of firm-specific advantages exploitable in developed countries.

According to Makino & et al (2002), the asset-exploration perspective of OFDI is viewed as a means to acquire strategic assets (i.e., technology, marketing, and management expertise) available in a host country. NIE firms are motivated to invest in developed countries when they lack some component of technology that is necessary to compete in mature markets which is available in the developed countries. In other words, they intend to seek technology-based resources and

skills in developed countries that are superior or not available in their home countries in a particular product market domain. Those that have the capability to absorb this technology form the intent to do so, and hence, invest in developed countries.

According to March (1991) exploration involves gaining new information about alternatives and thus improving future returns, and exploitation involves using the information currently available and thus improving present returns. Both exploitation and exploration involve different aspects of organisational learning, yet are equally essential for organisational survival and prosperity. Building on the organisational learning perspective, Hedlund and Ridderstrale (1997) suggested that dominant theoretical perspectives in international business research adopted the exploitation rather than the exploration (creation) perspective.

3.3 Related and Unrelated acquisitions

Research on corporate diversification is an important area in the strategic management literature. As this research developed, some appealing operationalisations of diversification have emerged (Rumelt, 1974). These have resulted in generalisations about the linkage between diversification strategy and profitability. Notable among this research is Salter and Weinhold's (1979) work on the strategic relationships between acquiring firms and target firms. These authors classified acquisitions into the broad groups of related and unrelated transactions. An important contribution of the Salter and Weinhold work was a

link drawn between the acquisition of key skills or product market positions and the potential for value creation. These authors asserted that value would be created through the reinforcement of skills or positions critical to the success of the combined businesses through related acquisitions. Value in this context should be reflected in the stock price of the firms (and specifically in the change in stock prices as the market adjusts its expectation of future earnings from the businesses). This concept of economic value is consistent with that of financial economists.

The overall criterion for relatedness lay in the key success factor of the acquiring and acquired firms. Relatedness was reflected in the transfer of functional skills between businesses (functional skills could be subdivided into research and development, production, marketing and distribution)⁷. According to prior findings (Rumelt, 1974) on diversification strategy, businesses are understood to be related if they (1) serve similar markets using similar distribution channels, (2) use similar production technologies, or (3) exploit similar scientific research.

According to Singh and Montgomery (1987), in a related acquisition, value creation can arise from three sources: economies of scale, economies of scope, and market power. Economies of scale are present when efficiencies arise from

⁷ Salter and Weinhold further divided relatedness acquisitions into related-complementary and related-supplementary classification. That level of distinction is not used in the present analysis.

the expanded production of a specific product. In a resource framework this would mean that a given bundle of resources is being more fully utilised. Scale economies can occur in specific functional areas, i.e. manufacturing, research and development, selling and distribution. The traditional areas are used to identify related acquisitions (Salter & Weinhold, 1979); (Rumelt, 1974), as well as in the more general areas of administration and financial management. Economies of scope arise when a given bundle of resources are used in the joint production of two or more products.

For example, when some of the assembly facilities in an automobile plant (body manufacture) are used, both for cars and light trucks, scope economies may be operating. The indivisibility of the resource provides scale economies when capacity utilisation is increased through increased production of a single product. When capacity utilisation is increased through the production of two or more products, scope economies are provided through the utilisation of the indivisible shared resource. It is important to note that scope economies can occur outside of the production area. Distribution systems and intangible assets like brand names can be the source of scope economies if they are used for more than one product.

The sharing of specialised know-how is another important source of scope economies. Due to market imperfections this know-how may be unavailable at the same cost to other firms in the market place. This idea is similar to Rumelt's (1974) concept of diversifying around a core science-based resource. Market power effects, in the traditional framework of industrial organisation economies,

are operating when a market participant has the ability to influence price, quantity, and the nature of the product in the market place (Sheperd, 1970). In turn, market power may lead to excess returns. In related acquisitions a firm's market power may be increased through horizontal acquisitions (where the acquiring and the acquired firm are operating in the same product market) or through product or market extension acquisitions where a firm's effective size is increased relative to its competitors. Overall, Singh and Montgomery (1987) argue that in related acquisitions there are several mechanisms available for the combination of the two firms to be potentially more valuable than the sum of their pre-acquisition.

3.4 Prior research relating to motivation for the growth in the outward FDI

Deng (2004) investigated the motivation for outward investments in Chinese firms and identifies five motives for Chinese investments; namely, resource-seeking, technology-seeking, market-seeking, diversification-seeking and asset-seeking. Deng noted some special characteristics present in Chinese firms making outward investment, including the monopolistic position of the investing firms in the domestic markets and state-ownership. Chinese government policy plays a great role in boosting foreign investments. Of the large firms making outward investments, only one is privately owned and 25 are government-owned (Deng 2004). This situation is different from India.

Zhan (1995) suggests market-seeking as an important motive for Chinese outward FDI, as there is excess production capacity available in the manufacturing sector for textiles and clothing, bicycles, footwear and electric appliances. Another dominant motive as identified by Zhan (1995) is the resource-seeking motive as the per capita availability of natural resources is relatively low in China. Efficiency-seeking is not a dominant motive as China has abundant supply of low-cost labour. In yet another study about the determinants of Chinese outward FDI during 1984-2001, Buckley et al (2007) found three factors having significant impact on outward FDI, namely the host-country market size, cultural proximity and policy liberalisation. Asset-seeking and resource-seeking were not found to be significant determinants of the outward FDI.

Wang and Wong (2007) examined the effect of business cycle fluctuations on FDI outflows. The results suggest that these fluctuations would have more negative impact on FDI outflows when the general economic conditions are not good. Antaloczy and Elteto (2000) investigated the motives for Hungarian firms to invest in CEE countries. The results of this study suggest that market-seeking is the most important motive for outward investments by Hungarian firms, followed by strategic asset-seeking

Mazerolle (2006) compared the effect of enlargement or addition of provinces or countries in two regions, the Pan Pearl River Delta Region (Pan-PRD) and EU 25, when attracting foreign investment. The results revealed that the addition of eight provinces to the Pan-PRD region attracted about 1% of total world FDI stocks,

whereas the addition of ten countries to the EU helped to attract 2.7% of the world FDI stocks. This difference was attributed to the cultural and geographical ties between the Central and East European countries and West European countries which helped to attract the FDI. On the other hand, Graham, M., Martey, E. and Yawson, A (2008) examined the motives for UK firms to invest in less developed countries. The results suggest that the firms with high liquidity but rather low growth rate are more likely to invest in emerging markets.

Kyrkilis and Pantelidis (2003) investigated the relationship between outward FDI and certain macro-level factors such as income, exchange rate, technology, human capital and openness of economy using the data from five European Union (EU) and four non-EU countries during the period 1977-1997. The results suggested country-wise differences, and also differences between the developed and developing countries. However, generally speaking, a significant positive relationship between real GNP and FDI outflows was found, whereas exchange rate showed a significant negative relationship.

Instead of focusing on a country, Kreitl and Oberndorfer (2004) surveyed 100 top European engineering consulting firms to investigate the motives behind mergers and acquisitions. The dominant motives as suggested by the findings were diversification and market-seeking. To a lesser extent, increase in firm's market share was another motive. However, tax reasons and excess liquidity with the firms were not important while making acquisition decisions.

Dunning (1998) (1981) identified certain motivating factors for the firms investing in foreign countries such as resource seeking, market seeking and efficiency seeking. According to Nagesh (2008) another motivation for strategic asset seeking is not only access to brands and customers, but sometimes also proprietary technology.

Kumar (1998) investigated a recent trend in strategic asset-seeking FDI conducted by firms from newly industrialised Asian economies. The study found that the amount of the outflow of FDI from Asian newly industrialised economies to developed countries has been rapidly increasing over the past decade and suggested that the NIE firms investing in developed countries tended to use outward FDI to strengthen their non-price competitiveness⁸, whereas firms from newly industrialised economies investing in LDCs used FDI primarily to strengthen their price competitiveness⁹. Chen and Chen (1998) found a similar pattern in outward FDI of Taiwanese firms and supported the findings of Kumar (1998). Research also suggests that many of the firms from newly industrialised economies investing in developed countries have gained access to established

⁸ Non-price competition is a marketing strategy in which one firm tries to distinguish its product or service from competing products on the basis of attributes like design and workmanship" (Brue-McConnell (2002) p. 43.7-43.8).

⁹ A price lower than that offered by the competitors, or a price made more attractive because of added incentives, such as longer payment terms. <http://www.businessdictionary.com/definition/competitive-price.html#ixzz1oBX7S6cE>

brand names, novel product technology and extensive networks of distributors, typically through aggressive acquisitions of developed countries' firms in the host countries (Kumar, 1998).

As per the prior findings (Kumar, 1996), the drivers behind Indian corporates OFDI (1970s and 1980s) were market-seeking in nature and aimed to exploit the revenue productivity of the technology and capital goods adapted to developing country situations. Hence, Indians were primarily concentrated in relatively poorer countries in Asia and Africa and focussed on relatively mature technology areas of manufacturing (metal products), edible oil refining, paper and light engineering. The most preferred form of investment was greenfield or joint venture. India enjoyed competitive ownership advantage in Africa and hence preferred greenfield mode. During 1990s, the emergence of Indian corporates in generic pharmaceuticals and in IT software services in global markets required local presence to support their exports. Hence, the OFDI pattern was characterised as trade supporting and was subject to overseas investment regulations. From 2000 onwards the focus was towards globalisation of operations and increasing scales. Therefore, to derive competitive advantages, the Indian corporates preferred a brownfield investment strategy by acquiring the target companies from the developed countries in Europe, UK and US which emerged as principal markets for the Indian corporates going global and provided them with immediate scale and global prints.

It has been argued that outward investment activity prior to 1991 was the market-seeking type (greenfield investment) where Indian enterprises established presence in developing countries on the basis of their intermediate technologies in relatively low technology industries such as light engineering (Lall, 1986 & Kumar, 1996). In the 1990s, however, outward investments were taken up by Indian enterprises to improve their global competitiveness with local presence in major markets, acquiring strategic assets, and strategic access to markets in emerging trading blocs in the context of increased emphasis on outward orientation as a part of reforms (Kumar, 1998). Therefore, outward investment is clearly concentrated in the countries that are key destinations for Indian exports (viz. EU and the North America) and in the sectors of Indian strength.

According to Lall (1986), the main source of advantage enjoyed by Indian enterprises is their ability to absorb, adapt and build upon the technologies imported from abroad rather than developing completely novel technologies. Kumar (1996) takes the view that Indian enterprises have accumulated considerable learning and technological capability, managerial and technical expertise under the strategy of import substituting industrialisation pursued during the first four decades of independence.

According to Sathye (2009), all the Indian corporates that are involved in overseas acquisitions in the steel sector belong to the private sector and not a single public sector steel company has gone for foreign acquisition. This emphasises the relevance of firm-specific advantages of the individual firms, rather than an

incentive in the form of favourable government policy, as in the case of China. Sathye (2008) suggests that rather than following a smooth ‘development path’ as a nation, Indian FDI outflows exhibit a rather uneven and sporadic pattern. The reason for this pattern can be attributed to the firm-specific advantages and individual decisions of the firms in contrast to that of neighbouring China.

3.5 Internationalisation Model

Agarwal and Agmon (1990) developed a new model: A three stage dynamic comparative model of government-business relationships, and examined its implications as a conceptual framework to address how the government macro policies interface with business micro considerations as a given economy develops and internationalises. The study looks into the model’s consistency with the experiences of a few Newly Industrialised Countries (NIC); namely Singapore, India and South Korea. The study however, does not present a formal empirical verification of the model.

The assumption of the Agarwal and Agmon study is that in NICs the firms operate in a competitive market but with the market structure in the home country heavily influenced by the government of the NIC. The nature of the specified market structure has an effect on the policies followed by firms regarding their strategies for dealing with markets for their products. Thus, the proposed model is influenced by two major forces: the first is the government policy and the second

is profit maximising behaviour by firms. The distribution of the weight between these two forces changes as the process moves from one stage to the next.

The model identifies three phases in the multidimensional process of the interface between the internationalisation and the business-government relations in NICs. They include: Import substitution, Export Promotion and Investment in Foreign Markets. The multidimensional process includes: Status of Comparative Advantage, Government Role, Corporate Role, Market Structure and Macro Policy.

The Import Substitution Phase: The government takes a lead role in the early stages of this phase. The government decides on the nature of the desired long-term comparative advantage, and how to get there. The government changes the relative changes through taxation, tariffs and by quantitative restriction on imports, and determines the market structure in the domestic market. This phase is characterised as the period in which the government takes the driver's seat and the corporate sector follows. This is also referred to as the bureaucratic process of decision making.

The Export Promotion phase: The second phase in the internationalisation process is the export promotion stage. There is duality in terms of market structure. Production is carried out in a protected market, but export sales take place in a competitive market. This is a transition phase in terms of government/corporation relationships. As exports increase in importance, the

ability of the government to control the corporate sector decreases. Another aspect of this stage in the development of international business activities is a sharp increase in the level of savings. This is a well-known export led growth phenomenon.

The FDI Stage: In this phase, with NIC investments in target markets, the corporates are the driving force. The government acts as a reluctant partner. The primary motivation of the NIC firm is to maintain and expand the export market, and to reduce the risk associated with changes in trade policies in the target markets. Direct investment in target markets, both in marketing related activities (pre- and post-sale services) and in production facilities, are usually undertaken primarily for risk reduction rather than for maximisation of profits. As more investment flows across borders, and more resources are transferred from the country of origin to the target market (resources which include human capital), the NIC companies become more international. This may maximise the value of the shareholders of the company, but it may not necessarily maximise the contribution of the company to its home economy from the government's point of view.

This phase is the stabilisation period in terms of the dynamics of the comparative advantage. It is also a phase where the comparative advantage becomes more firm specific. The planning shifts towards the company and away from the government.

The study concludes that the government may initiate the process of internationalisation and control its initial stages, but the role of government

diminishes as the country and the corporate sector move successfully through the three stages. The three stage dynamic comparative model of government-business relationships is specifically found consistent with the development experience in India, Singapore and South Korea and it helps in explaining the inconsistencies between NIC's domestic factor proportions and the relatively sophisticated nature of activities of their firms in foreign markets.

3.6 Conclusions

The studies suggest that outward foreign direct investments are influenced by certain factors like: competitive advantage, institutional investments, managerial capabilities and absorptive capacity. The most widely used approach attributes such competitive advantage to three factors: ownership, location and internationalisation. It is evident from the above discussion that the corporates involved in OFDI from developing countries are able to acquire competitive advantages, including proprietary expertise and technology, which allow them to operate in overseas environments and compete effectively with foreign firms. Many of these firms tend to possess firm-specific competitive advantages which they have created, acquired and nurtured over many years in their home countries.

Given the changes in the global economic environment, regulatory framework and the time frames, the present study investigates if the Indian experience would be in any way different from the earlier empirical experiences. The following chapter presents a review of literature from overseas mergers and acquisitions in mature

markets, and also from emerging markets with special reference to India. It helps in understanding and identifying the gaps in the literature based on the prior findings.

CHAPTER 4: REVIEW OF LITERATURE

4.1 Introduction

This chapter reviews the literature relating to mergers and acquisitions (M&As). It focuses on the empirical research findings for M&As in mature markets and emerging economies. The literature discussed below presents various studies initiated to examine the effects of M&As in terms of value creation from short- and long-term perspectives. Table 4.1 presents a summary of short term prior findings and Table 4.2 presents a summary of long-term performance prior findings. The literature review also examines issues relating to methods used in prior studies and the challenges in estimating the expected returns in the long period horizons. Literature relating to India is reviewed..

4.2 Prior Studies Categorisation

The observed research domain (as shown below) for M&As to date includes studies from mature markets, transition economies and emerging markets. They involve event study methods: short-term price performance of the shares of the bidding firms; market reactions to M&A announcements; long-term performance of the bidding firm; emerging markets' literature and motives behind M&As.

- I) Two approaches which dominate in the prior studies (mature markets) are:
 - Short-term effect of acquisitions – Event Studies
 - Long-term effect – Value Added Studies

- II) The literature review also considers the following:
 - Research methods and models

- Emerging and Transition Market Studies
- Empirical findings from Indian context

4.3 Short-Term Event Studies

The first major merger wave of 1900 has been described as a wave to create monopolies; the second a wave to create oligopolies (Stigler, 1950); and the third wave to create conglomerates (1960s onwards). The distinguishing feature of the mergers occurring in the 1960s was to diversify or extend the acquiring companies' product mixes (Mueller, 1977). The present study considers the prior findings in the literature from 1970 onwards because these studies used event study methods to assess the abnormal returns to the acquiring firms.

The evidence from short-term event studies, conducted primarily in mature markets on the outcomes of mergers and acquisitions is both extensive and mixed.

Mandelker (1974) conducted one of the first merger studies in the US using an event study approach and found no abnormal returns for the bidders. Dodd and Ruback (1977) observed that in the announcement month, the bidders earned significant positive abnormal returns of 2.83% and the targets earned significant positive abnormal returns of 20.58%. Likewise, Conn (1985), Jensen and Rubback (1983) and Jarrell, Brickley and Netter (1988) concluded that acquiring firms tend to enjoy positive performance. Conversely, Roll (1986) found some evidence that the value of the bidding firm decreases at or after the announcement of an acquisition event.

A number of subsequent studies examined the returns of the merger participants in the US. Studies by Bradley (1980), Bradley, Desai, and Kim (1982), Jarrell and Poulsen (1989), and Jarrell, Brickley, and Netter (1988), analyse corporate takeovers made through tender offers. With the exception of Jarrell and Poulsen (1989), all studies covering the pre-1980 era find that successful bidders earned significant positive abnormal returns in the range of 2 - 4% and the successful targets earned significant positive abnormal returns in the range of 20-32%. Jarrell and Poulsen (1989), however, suggest that successful bidders (between 1980 and 1985) earned statistically insignificant negative abnormal returns.

Asquith (1979) employed the Black (1972) two-factor model as a benchmark for normal monthly returns. The study focuses on the first public announcement date concerning mergers in US firms. This technique was first used by Dodd and Rubback (1977). Their study found statistically significant gains accruing to the shareholders of both firms in the announcement month, though these are small in percentage terms for acquiring firms. Significant negative performance for acquired firms is observed during the period more than six months prior to the announcement. In the several months just before the announcement, however, acquired firms earn substantial positive abnormal returns. For acquiring firms, pre-merger performance is generally positive.

Dodd (1980) examined unsuccessful as well as successful merger attempts. The study computes daily market model forecasting errors and averages them cross-sectional for given relative dates to obtain average forecasting errors. For acquired

firms, around the first public announcement date, the study documents large positive abnormal returns. In the case of acquiring firms, the announcement period is marked by small, but significantly negative abnormal returns.

Masulis (1980) and Vermaelen (1981) document positive announcement period abnormal returns for tender offer stock repurchases. These researchers argue that share purchase announcements convey information about the performance of the firm.

Asquith (1983) examined the merger process and considers whether mergers result in real gains. The sample is drawn from New York Stock Exchange (NYSE) listed firms. The study period is 1962-1976 and includes 480 trading days before a merger bid to 240 trading days after a merger bid. Asquith uses daily common stock returns for two years before the press date until one year after the outcome date. Daily excess returns are calculated and the average daily cumulative excess returns are found to be positive throughout the pre-press period for all bidding firms. His findings show little or no reaction on the press day to a merger bid for both successful and unsuccessful bidding firms. The two-day excess returns are positive at 0.2% for successful acquiring firms. The bidding firms appear to have small but insignificant positive excess returns at the press day. All firms involved in merger bids have negative excess returns in the post outcome period.

Harris and Gurel (1986) found the announcement of adding stocks in the S&P 500 index can generate temporary positive abnormal returns. The announcement

does not contain any information about company's operational changes, thus the empirical evidence only suggests a price pressure effect.

Mathur, Chhachhi and Sundaram (1992) supports the hypothesis that target shareholders receive abnormal positive returns. These returns are explained by the bidders' willingness to pay a premium over existing market prices for targets to capture perceived advantages associated with internationalisation of markets. They view the argument that returns to bidder stockholders should be positive due to the capture effects of location and because certain firm-specific factors are not borne out. It may be that stockholders do not positively price these factors. They conclude that the acquisition effects associated with managerial perquisites, the winner's curse and free cash flows may in the minds of the bidders' stockholders, outweigh the positive effects of OFDI.

Mathur et al (1994), Datta and Puia (1995) reported significant negative performance for bidders. Danbolt (1995) analysed bidders from different countries that acquired UK firms using both market and index models and reported that acquirers earn significant negative abnormal returns. Similar conclusions were drawn by Eun, Kolodny and Scheraga (1996) and Aw and Chatterjee (2004) in their studies of acquirer firm returns using the mean adjusted return model and market model. Their studies find that foreign acquirers earn significant negative abnormal returns ranging between 21.20% and 28.07%. In addition to the studies that have reported positive and negative performance for bidding firms, a number of studies also reported insignificant bidder returns around the announcement time

of cross-border M&As (CBM&As) [see Gregory and McCorrison (2005); Campa and Hernando (2004); and Yook and McCabe (1996)].

A number of studies examined the short-run performance of UK acquiring firms and reported statistically significant positive return in the short-run for the UK acquirers [see Conn et al., (2005) (2001) ; Goergen and Renneboog (2003), (2004)]. However, Aw and Chatterjee (2004), Mathur et al. (1994) and Eun et al. (1996) reported statistically significant negative abnormal returns. In a more recent study, Gregory and McCorrison (2005) reported negative bidder returns but the result was not statistically significant.

The studies of Andrade (2001) and Tuch and O’Sullivan (2007) showed negative performance to acquiring firms in the short-run in the US. Bruner (2002) reported that of the 44 studies on acquiring firm performance that he reviewed, 20 reported negative returns for the bidders and 24 studies reported positive returns. Of the 20 studies that produced negative performance for the acquiring firms, 13 reported significant and negative performance. In the case of positive return studies, 17 of 24 studies showed significant positive performance of acquiring firms. These results make the conclusions regarding the bidding firms’ performance more complex and confusing.

Marta (2002) used a sample of 72 global alliances formed between 1987 and 1997 by Spanish firms listed on the Madrid Stock Exchange. Their study used the event study method to examine short-term stock price reaction to global alliance

announcements. Their findings showed that the Spanish firms gained an average abnormal return of 0.2%, on the day of the announcement.

Antoniou and Zhao (2004) report from a sample of 179 successful British bids that equity bids tend to underperform significantly in the first and second years following the bid. Moeller et al (2004) take into account the size effect when comparing the announcement effect of equity and cash bids. Large acquirers of public targets lose -2.45% if paying with equity and lose only -0.75% if paying with cash. Small acquirers gain 2.84% if they pay with cash and lose -0.42% if they pay with shares. Conn et al (2005) find that bids financed with any payment method other than cash lose -0.47% over 36 months following the announcement. Bids financed with cash experience insignificant losses. Overall therefore, the available evidence suggests that cash acquisitions perform better than equity bids.

Elango (2006) studied the impact of international acquisitions on shareholder wealth. The study was based on 52 international acquisitions in 24 countries undertaken by US firms in the insurance industry during 1997-2003. Event-study method was used to verify the impact of international acquisition announcements on an insurance firm's shareholder wealth. The changes in the share price of the firm during the announcement period (1 day prior to and 20 days after) were compared with a prior control period (22 to 247 trading days before the announcement). Cross-sectional regression analysis was used. Overall results of this study show that the firms undertaking overseas acquisitions face statistically insignificant negative market returns.

Kirchhof, Schiereck & Mentz (2006), examined the value implications of 69 US domestic and cross-border merger and acquisition (M&A) deals of exchange-listed real estate finance institutions between 1995 and 2002. To assess the value implications of M&A a standard event method was used, which relies on the market adjusted model and the market model. Cumulative abnormal returns stemming from the market model and the market adjusted model were calculated for four different event windows with -80 and +80. The estimation period was 252 days and the event window was 161 days. Their results document that shareholders of targets earn, at least in the closest analysed interval, significant positive abnormal returns. There were no significant abnormal returns accruing to the shareholders of the bidders in any of the analysed intervals. CARs were slightly negative in two of the four event windows, and positive in the remaining two.

Rieck and Canh (2006) employed the event study method to investigate M&As in the telecommunication industry and analysed the conditions under which M&As could be considered successful. They considered companies listed on European and US stock exchanges (NASDAQ and NYSE). Their findings show that there is an overall positive shareholder wealth effect associated with M&A announcements in the telecommunication industry. This is especially true for telecommunication operators engaged in cross-border M&As. The cross-border M&As experience positive abnormal returns and outperform firms that expand domestically. In addition, when investigating service diversification and

international diversification, mergers that are both non-conglomerate and cross-border are found to add value to the acquiring telecommunications operator, whereas no significant stock reactions are found when acquirers engage in conglomerate domestic mergers.

Hassan & Patro (2007) examined 405 US companies involved in M&A activities in the US market as well as non-US markets from 1981 to 2004. They used the event study method to examine short-term stock price reaction to M&A announcements. They used both the market model with value weighted market index and the Fama-French three-factor model (also with value weighted market index) to adjust for risk and estimate abnormal return. Their findings do not show abnormal returns to acquiring companies. An important finding of their research is that when pharmaceutical acquisitions are analysed separately from mergers, the results indicate a statistically significant positive abnormal return for acquiring companies for both short and longer terms.

Cummins & Xie (2009) analysed the market response to US property–liability (P–L) insurer acquisitions and divestitures. The market-value response to acquisitions and divestitures is estimated using a standard event study market model. They used regression analysis to measure the relationship between firm returns (dependent variable) and market returns (independent variable), along with a set of control variables. Their results show that acquirers, targets and divesting firms all have significant positive abnormal returns around announcement dates.

Uddin & Boateng (2009) examined the short-run stock price performance of 373 UK acquiring firms engaged in cross-border mergers and acquisitions (CBM&As) between 1994 and 2003 using a univariate analysis. The study found that the UK acquirers do not earn positive abnormal returns on the announcement of cross-border acquisition decisions. Although the daily abnormal returns (AR) show that the acquisition announcement created some positive response on the day of announcement and immediately after the announcement, the positive returns disappear as the event window increases. Even though the abnormal returns for the whole sample become negative in the wider event windows, none of them is statistically significant. This indicates that the UK acquirers neither create value nor lose value by the announcement of acquisitions abroad. Their study results also suggest that selected transaction-specific, firm-specific and geographic characteristics (in this case, form of target, acquisition strategy, geographical origin of target firm and the payment methods) do affect the abnormal returns of acquiring firms. The implications suggest that attention should be paid to these four factors when undertaking mergers and acquisition abroad. However, size of the deal appears not to have a positive bearing on the wealth gains of the UK acquirers.

Ben & Alex (2010) examined M&A activity in Australia for the period 1999–2004. They studied the share returns of bidders and targets, controlling for method of financing, hostility and the Fama-French factors. They used the event study method to examine short-term stock price reaction to M&A announcements. A list

of 417 M&A transactions involving at least one publicly listed firm was compiled from the Aspect Huntley databases. Targets accrue significant positive returns, and this happens at the expense of bidders, who fail to capture the majority of economic benefits created from M&As. There is no significant evidence that overall bidder returns are different from zero over a trading window greater than ten days, except for the window (0.60). Their findings suggest that target companies are receiving a transfer of wealth at the expense of the bidder companies.

Spyrou and Siougle (2010), investigated whether short-term reversal/continuation patterns were present in security returns following M&A announcements, for stocks listed on the London Stock Exchange. News items are sorted into categories: whether the firm is a bidder or a target, the level of information disclosure, the size of the firm, whether the announcements generate a positive or negative reaction, and whether the initial reaction is of a strong magnitude. They used event study methodology. The results suggest that investors generally react efficiently; however, there is also evidence of short-term return reversals following the arrival of M&A information.

4.3.1 Secondary Information and Stock market reactions

The literature reviewed below will enable to understand the impact of secondary information on the stock markets. This part of the study will be useful while explaining the differences in outcomes at firm specific level.

Evidence of inefficient analysts' forecasts by Mendenhall (1991), DeBondt and Thaler (1990) raises the question of whether investor reliance on analysts might explain anomalous stock price behaviour. The analysts' earnings forecasts and recommendations could be an originating source of stock price under or overreaction.

Mortanges and Rad (1998) examined the effect of marketing strategy on market value and found that negative publicity led to a negative response. The study examined a new laundry detergent Omo Power launched by Unilever on the European market in 1994. Unilever's rival Proctor and Gamble claimed that the product was harmful to clothes. Consequently, Unilever had to modify the product and launch an advertising campaign to regain consumer confidence. These events caused Unilever's stock price to fall by 9.45% in under five months, indicating that investors perceived the basic flaws in Unilever's marketing strategy.

Zhang and Aldridge (1997) analysed the effects of merger and foreign alliance possibilities in the Canadian airline industry and found that news regarding the merger/foreign alliance possibilities had a significant impact on the stock prices of the companies concerned. Some research shows that following analysts' stock recommendations can be profitable (e.g. Womack (1996); Barber et al., (2001), while more recent studies question their investment value. Indeed, evidence suggests that analyst recommendation levels may actually hinder the market's price discovery process, and these studies show a negative relationship between analysts' recommendations and future stock performance (Bradshaw, 2004;

Barniv et al., 2009; & Drake et al., 2011). One rationale for this negative relationship is analysts' conflicts of interest. Analysts are influenced by their own compensation structures.

According to Hackbarth and Erwan (2006), when there is competition for the target and if asymmetric information prevails then the abnormal announcement returns arise for two reasons. First, market participants have incomplete information regarding the takeover surplus. The management of the bidding firm has complete information regarding the potential benefits of the takeover, but cannot communicate this information to shareholders (as cited in Carlson, Fisher & Giammarino, 2005a; Morellec & Zhdanov, 2005). Outside stockholders have imperfect information and decide to accept or reject takeover bids based on the informed manager's recommendation. Thus, market prices reflect the information set of uninformed investors. In such an environment, participating shareholders face two sources of uncertainty. If the uncertainty in market beliefs is high, then the market's expectation of the merger benefits might exceed its true value. Therefore, the market overestimates the benefits of the merger and the negative abnormal announcement returns are observed for bidding shareholders.

Theoretical studies posit that when analysts lack sufficient private information to produce accurate forecasts or recommendations, either through lack of effort or ability, they will tend to mimic outputs from strong analysts (Trueman, 1994; Arya, A., Glover, Mittendorf, Narayanamoorthy, 2005). This herding behaviour among analysts is an attempt to alleviate the observable effects of their lack of

information and has been documented in empirical studies (Hong, Kubik, & Solomon, 2000; Clement & Tse, 2005; Mensah & Yang, 2008). Bloomfield and Hales (2009) provide evidence that in some situations, analysts may use the consensus forecast as a substitute for individual effort.

Rosen (2006) examined the effects of mergers on bidding firms' stock prices and found evidence of merger momentum: bidder stock prices are more likely to increase when a merger is announced at the time when recent mergers by other firms have been received well (a "hot" merger market) or if the overall stock market is doing better. However, the study also found long-run reversal. Long-run bidder stock returns are lower for mergers announced when either the merger or stock markets were hot at the time of the merger than for those announced at other times.

According to Malmendier and Shanthkumar (2007), analysts tend to positively bias the information they provide to investors, as evident in the very low number of sell and strong sell recommendations. While large investors adjust their reaction to hold and buy recommendations downwards, small investors take recommendations literally. Small investors also fail to account for the additional distortion due to underwriter affiliation. Potential explanations are higher costs of information and naiveté about distortions in analyst recommendations. Their study found it hard to explain in a standard framework why only large traders but not small investors adjust their trade reaction to the general upward bias of analyst recommendations, given that there seem to be some conditions under which it

would be more profitable to make that adjustment and given that the general upward bias is visible to any trader reacting to recommendations. It is also striking that small traders do not focus on analysts from independent brokerages. The latter findings suggest that small investors are naïve about the distortions and trust analysts too much.

Twedt and Rees (2012), examined whether two qualitative attributes of financial analysts' reports - detail and tone - are significant in explaining how the market responds to analysts' reports, after controlling for the information contained in the reports' quantitative summary measures. Report detail is hypothesized to reflect the level of effort expended by the analyst in preparing the report, and therefore the usefulness of their intrinsic firm value estimates. Report tone is predicted to signal the analyst's underlying sentiment regarding the firm and may be used to assess the extent to which analysts' conflicts of interest interfere with the mapping of firm value estimates into stock recommendations. Consistent with these hypotheses, they found that the tone of financial analyst reports contains significant information incremental to the reports' earnings forecasts and recommendations; and report complexity (one component of report detail) helps explain cross-sectional variation in the market's response to the reports' recommendations.

4.4 Long -Term Studies

The prior findings are reviewed from the context of post-acquisition performance. This review enables us to understand the prior experiences relating to long-term performance and wealth effects to the stockholders of the acquiring companies. It will be interesting to see if the experiences documented in the literature will be in any way similar to the experiences of Indian corporates involved in 30 OFDI related M&As that are considered in this study.

Hogarty (1970) studied 43 firms between 1953 and 1964. These 43 acquiring firms were selected from the population of firms listed in the 1965 edition of Moody's Industrial Manual. The accounting measures are subjected to univariate statistical analysis and include investment performance and earnings per share (EPS). The findings of his study show that the investment performance of firms involved in acquisitions is generally worse than the average investment performance of firms in their industries. EPS also indicates under-performance for the merged firms. Philippatos, Choi and Dowling (1985) examine 119 firms between 1978 and 1981, applying the univariate analysis. The accounting measures examined included operating expense ratio.

Mandelker (1974) examined the impact of mergers on the returns to the stockholders of the constituent firms. The study employed the two-factor market model, following Black-Jensen-Scholes and Fama-MacBeth, which considers changes in risk when analysing the impact of mergers on stock prices. The results

of the study are consistent with the hypotheses that the market for acquisitions is competitive and that information regarding mergers is efficiently incorporated in the stock prices. Stockholders of acquiring firms earn returns from mergers commensurate with other investment-production activities of similar risk levels. Stockholders of acquired firms earn abnormal returns of approximately 14% on average in the seven months preceding the merger.

Langetieg (1978) re-examined the pre-merger and post-merger stock performance from the perspective of a three-factor performance index. The sample was drawn from NYSE for a period of 72 days before the event and 72 days following the mergers during 1929 and 1969. The study concluded that the post-merger excess returns (net of control group influence) are found not to be significantly different from zero, providing no support for merger benefits.

Schipper and Thompson (1983) measured the impact of acquisitions' activity on firm value by differentiating between specific merger events and programmes of acquisition activity. Based on a sample of 55 firms listed on NYSE, they found significantly positive abnormal performance associated with the announcement of acquisition programmes and significantly negative performance associated with certain institutional changes during 1967-1970 relating to acquisition activity (the Williams Amendments, the 1969 Tax Reform Act, and APB Opinions 16 and 17).

Jensen and Ruback (1983) concluded, based on an analysis of 16 studies in US, that the return to bidders in successful mergers was zero, and in successful

takeovers was +4.0%. Their evidence indicates that corporate takeovers generate positive gains, while the target firm shareholders benefit and the bidding firm shareholders do not lose.

Malatesta (1983) examined the net effects of the long-run sequence of events leading to merger, and of merger per se, on shareholder wealth. The period of study was from 1969 – 1974 and the sample size comprised 256 acquiring firms and 85 acquired firms from the US. The appropriate measure of the wealth effect is shown to be the abnormal *dollar* return cumulated over time. Using this measure, the long-run wealth effect of the event sequence culminating in merger is significantly negative for acquiring firms. For acquired firms, the effect is negative, but not significant. The evidence also reveals that measured abnormal rates of return to acquiring firms are sensitive to a slight variation in model specification and dependent on firm size, with smaller firms earning significantly negative post-merger returns.

Weidenbaum and Stephen Vogt (1987) concluded, based on an analysis of 10 studies from the US, that negative returns to shareholders for acquisitions are more prevalent. Clearly, there are winners and losers in the takeover game. Most studies confirm that, in general, target firm shareholders are winners.

Singh and Cynthia (1987) investigated the conceptual argument that acquisitions which are related to product/market or technological terms create higher value than unrelated acquisitions. Related acquisitions are found to have greater total

dollar gains than acquired firms in unrelated acquisitions. These findings indicate that related target firms benefit more from acquisition than unrelated target firms.

Caves' (1989) survey of US firms contrasts the favourable appraisal of mergers derived from ex-ante event studies to the increasingly negative findings based on ex-post evaluations. The ex-ante literature recognises managerial behaviour in target firms as an inefficient deterrent to mergers, but managerial behaviour by bidders at least as clearly promotes excessive mergers.

Harris and Ravenscraft (1991) examined foreign direct investment by studying shareholder wealth gains for 1273 US firms acquired during the period 1970-1987 and suggest three findings. First, cross-border takeovers are more frequent in research and development-intensive industries than are domestic acquisitions; furthermore, in three-quarters of cross-border transactions the buyer and seller are in related industries. These industry patterns suggest that costs and imperfections (information asymmetry) in product markets play an important role in foreign direct investment. Second, targets of foreign buyers have significantly higher wealth gains than do targets of US firms. This cross-border effect is comparable in size to the wealth effects of all-cash and multiple bids, two effects receiving substantial attention in the finance literature. Third, while the cross-border effect on wealth gains is not well explained by industry and tax variables, it is positively related to the weakness of the US dollar, indicating a significant role for exchange rate movements in foreign direct investment.

Franks, Harris and Titman (1991) investigated share price performance following corporate takeovers. They used the multiple-benchmarks from the portfolio evaluation literature that overcome some of the known mean-variance inefficiencies of more traditional single-factor benchmarks. Studying 399 US takeovers consummated in the 1975-1984 period, they conclude that previous findings of poor performance after takeover are likely due to benchmark errors rather than mispricing at the time of the takeover.

Jaffe and Mandelker (1992) use an exhaustive sample of mergers from 1955 to 1987 between NYSE acquirers and NYSE/AMEX targets, measuring post-acquisition performance after adjusting for the firm size effect as well as beta risk. They find that shareholders of the acquiring firms suffer a statistically significant wealth loss of about 10% over the five years following the merger completion. Their results are robust to a variety of specifications and do not relate to changes in beta following the merger. Therefore, they conclude that the efficient-market anomaly of negative post-merger performance highlighted in Jensen and Ruback (1983) does exist.

Datta, Pinches, and Narayanan (1992) considered 41 studies, and concluded that bidders earn a return of less than one-half of 1%. They conclude that the synthesis of ex-ante event studies presented in this paper provides robust evidence that, on average, shareholders of bidding or acquiring firms do not realise significant returns from mergers and acquisitions.

Healy, Palepu and Ruback (1992), examine post-acquisition performance for the 50 largest US mergers between 1979 and mid-1984. Merged firms show significant improvement in asset productivity relative to their industries, leading to higher operating cash flow returns. This performance improvement is particularly strong for firms with highly overlapping businesses. Mergers do not lead to cuts in long-term capital and R&D investments. There is a strong positive relationship between post-merger increases in operating cash flows and abnormal stock returns at merger announcements, indicating that expectations of economic improvements underlie the equity revaluations of the merging firms.

Polasky and Mason (Spring 1998) analysed the short- and long-run profitability and welfare consequences of horizontal mergers, where the equilibrium responses to a merger can differ over time. Although firms can anticipate the merger, they can only adjust their capacity in the long run. They found a greater range of profitable mergers than in static models. For a merger to raise welfare, it is sufficient that the short-run welfare effects are positive, and necessary that the long-run effects are positive. They relate these conditions to the inside firms' market shares and the Herfindahl index.

According to Mauldin (18 April, 2003) earnings drive the price of a stock and the study illustrates that the real (inflation-adjusted) earnings growth for the period 1965-1982 being roughly the same as for 1982-1999. Yet the S&P 500 had significantly different results. The first period was one of no stock price growth,

and the latter saw growth of over 1000%. Why the difference in results? The suggestion is that the investors perceived the relative value of the earnings. In a period of high inflation, earnings growth of 6-7% is not all that impressive but in today's low inflation environment it makes a difference.

Ismail Ahmad (2008) studied shareholder returns using 16,221 US takeovers between 1985 and 2004. The study found that single acquirers out-perform multiple acquirers by 1.66%, and that the gap widens to 5% in equity exchange offers. In contrast to multiple acquirers, single acquirers generate higher returns in equity deals than in cash and mixed offers, due to the high returns earned through the acquisition of non-public targets. Unsuccessful first time acquirers learn, but successful first time bidders suffer from hubris behaviour in subsequent acquisitions. The study finds that size, relative size, and valuation differences could explain the higher returns for single acquirers, and that the toehold presence leads to paying lower premiums.

Fung, Jo and Tsai (2009), examined the ways in which stock market valuation and managerial incentives jointly affect merger and acquisition (M&A) decisions and post-M&A performance of US firms. Their finding suggests that market-driven acquisitions could be value destroying when managers engage in opportunistic acquisitions for reasons of self-interest. Managerial myopia, overconfidence, misaligned incentives, empire-building motives and poor

corporate governance can all exacerbate the agency problem of market-driven acquisitions.

Dutta and Jog (2009) examine the long-term abnormal returns and operating performance of Canadian acquiring firms by using a comprehensive sample of 1300 acquisitions during the period 1993–2002. They use event-time and calendar-time methods and improved benchmarks to detect long-term abnormal returns. Consistent with the viewpoint of Fama (1998) and Mitchell and Stafford (2000), they did not find any significant negative long-term abnormal returns for Canadian acquirers, when they accounted for method discrepancies.

Further, they found that their results were robust across factors such as: (i) mode of acquisition target type (public or private), related or unrelated target, (iv) payment type (shares, cash or mixed), (v) growth or value acquirer, (vi) board independence, (vii) level of managerial ownership, and (viii) relative size of the deals. They also note that the Canadian market corrects for its overreaction to an acquisition announcement event within a short period of time and this is consistent with the long-term operating performance results in the post-acquisition period.

Savor and Lu (2009) examined 1773 US firms listed on the NYSE between 1978-2003. Their findings support the hypothesis that overvalued firms create value for long-term shareholders by using their equity as currency. They found that unsuccessful stock bidders significantly underperform successful ones. This

underperformance increases with the length of the holding period. Over a one-year horizon, the mean abnormal return of failed acquirers is 13.6% lower than that of successful acquirers, and this differential grows to 22.2% for a two-year horizon and 31.2% for a three-year horizon. Moreover, unsuccessful acquirers continue performing poorly even after merger failure is announced, by which time any information related to the bid presumably became public.

4.5 Literature on Research Methods

It is important to understand the research methods and models used in the prior studies. A review of the research methods and models will help in choosing an appropriate method or model to assess the performance of the Indian corporates involved in thirty OFDI related M&As in the present study. Hence, the literature relating to the research methods is reviewed below:

Beaver (1968) pioneered the use of the variance of abnormal returns as a measure of information content, and the method was later refined by Patel (1976). According to Yadav (1992), event studies typically define an ‘event’ window over which potential abnormality in the event-related returns distribution is analysed. Abnormality is measured with reference to an ‘estimation’ period which is used to determine the benchmark value of the parameters of the model specified for generating ex ante returns. The model most commonly specified to generate ex ante returns has been the market model, which aims at eliminating market wide influences from price changes.

Brown and Warner (1980) point out that an event study must clearly define what “abnormal” performance is. There are three commonly used models for defining abnormal performance: market model (OLS model), market adjusted model and average mean model. The market model (OLS model) is the most widely accepted approach reported in research studies to calculate abnormal returns because the risk is adjusted.

Brown and Warner (1985) examine how the particular characteristics of daily stock return data affect event study methods. Using simulation procedures with actual daily data, their paper investigates the impact of a number of potential problems of concern in the literature. These include (1) non-normality of returns and excess returns, (2) bias in OLS estimates of market model parameters in the presence of non-synchronous trading, and (3) estimation of the variance to be used in hypothesis tests concerning the mean excess return, and specifically the issues of autocorrelation in daily excess returns and of variance increases on the days around an event. In addition, the effect of cross-sectional dependence of excess returns on variance estimation, which is an issue even with monthly data, is also investigated.

Dimson and Marsh (1986) studied 862 press recommendations which demonstrated that the size effect can distort longer-term performance measures, and hence event studies. Relative to similar sized companies, post-publication performance is neutral. They found that the market adjustments, the capital asset pricing model (CAPM) and market model, with equally- or capitalization-

weighted indexes, all produce biased results. Event studies are most exposed to such bias when the measurement interval is long, event securities differ systematically in size or weighting from the index constituents, the size effect is large and/or volatile, and when CAPM-type methodologies are used. These distortions are avoided by explicitly controlling for size.

Maynes and Rumsey (1993) examine the procedures for measuring abnormal performance around events when securities do not trade daily. The empirical frequency distributions of the rank test statistic and a conventional test statistic are assessed under different rules for handling missing stock returns. The results suggest that the traditional procedures are reasonably well specified for thickly and moderately traded stocks but mis-specified for thinly traded stocks. The rank test, however, performs well for all trading frequencies and trade-to-trade returns are the best way to handle missing returns.

As pointed by Andrade.G, Mitchell.M, and Stafford.E (2001) and Moeller (2003), the three-day window is one of the two most commonly used event windows for merger studies. The other window most commonly used starts before the announcement and ends with the completion of the merger (Moeller.S, et al., 2003). According to Schwert (2000), the longer window makes it possible to take into account bid revisions and other actions taken by the bidder in reaction to defensive actions taken by the target. However, a longer window would increase the possibility of the integration of a confounding effect.

According to Bruner (2004), one of the two main research approaches which help form a view of M&A profitability is the event study. It examines the abnormal returns to shareholders in the period surrounding the announcement of a transaction. These studies are based on the assumption that stock markets are forward-looking and that share prices are simply the present value of expected future cash flows to shareholders. Since the 1970s, these studies have dominated the field.

McWilliams and Siegel (1997) gave a good reason for conducting event studies: The event study method has become popular because it obviates the need to analyse accounting-based measures of profit, which have been criticised because they are often not very good indicators of the true performance of firms. Therefore, it is expected that event studies will continue to be a valuable and widely used tool in economics and finance.

According to Bruner (2004), before looking at the findings, we need to define the tests. The benchmark for measuring performance is investors' required returns, commonly defined as the return investors could have earned on other investment opportunities of similar risk. Three possible outcomes can be seen against the benchmark, they include: (a) Value is destroyed. In this case, investment returns are less than those required by investors. Investors are justifiably unhappy because they could have done better investing in another opportunity of similar risk; (b) Value is created. The investment earns a rate of return higher than required. Investors should be happy and (c) Value is preserved. The investment just earns

its required rate of return. Economically speaking, investors earn “normal” returns. They should be satisfied. Judgments about the success or failure of M&A transactions should be linked to these measurable economic outcomes. In economic terms, an investment is “successful” if it does anything other than destroy value.

According to Bruner (2004), one of the basic conclusions of economics is that when markets are reasonably competitive, players will earn a fair rate of return. The intuition for this is simple: when information is free-flowing and entry is easy, a firm earning very high returns will draw competitors. The entry of these other firms will drive returns down to the point where the marginal investor earns just a fair rate of return. This idea, which has been tested extensively in financial markets, leads directly to the concept of market efficiency, which says that prices incorporate all publicly available information quickly and without bias. With tests of capital market efficiency, the hypothesis can be tested using one of three classes of measures: (1) Weak form. Did the share price rise? Are the shareholders better off after the deal than they were before? Such a before-and-after comparison is widespread, especially in the writings of journalists and securities analysts. But it is a weak test in the sense that it fails to control for factors unrelated to the deal that might have triggered a price change; (2) Semi-strong form. Did the firm’s returns exceed a benchmark? Are shareholders better off compared to the return on a comparable investment? The introduction of a benchmark, such as the return on the S&P 500 index, or the return on a matched

sample of peers that did not merge, strengthens the analysis. This kind of test, which is commonly used in academic research, is more reliable than weak-form tests because it controls for the possibility that the observed returns were actually driven by factors in the industry or the entire economy, rather than by the merger. But this kind of test is at best *semi*-strong because benchmarks are imperfect; and (3) Strong form. Are shareholders better off after the deal *than they would have been if the deal had not occurred?* This is the true test of the cost of lost opportunity, the economists' "gold standard" of comparison. The problem, of course, is that strong-form results are unobservable because there is no way to know for certain what would have happened in the absence of the deal.

According to Ahern (2009), the simplest method used to predict a normal return is to simply subtract a security's time series average from an event date return (mean-adjusted return) and the most commonly used prediction method is the market model, where the firm's returns are regressed on a constant term and a market index. In other words, the return on the shares is adjusted by subtracting the expected return from the present return, so that any significant difference is considered as an abnormal excessive return or residual.

Ahern (2009) conducts simulations of event studies where sample securities are grouped by the common characteristics of market equity, prior returns, book-to-market, and earnings-to-price ratios using daily returns from 1965 to 2003. A battery of prediction models and test statistics are compared for possible null rejection biases when returns are expected to have zero abnormal performance,

when returns are artificially increased and decreased, and when variance is artificially increased. In support of Brown and Warner (1985), when samples are randomly drawn, all the prediction models generate abnormal returns with only minor differences from zero with correct rejection rates in general.

4.6 Issues relating to methods and models used in M&As studies

Roll (1978) argued that estimates of abnormal performance can be sensitive to the choice of benchmark, and that estimates generated with inefficient benchmarks are not generally meaningful. In his view, the results of earlier studies of post-merger performance are therefore suspect, since they use benchmark portfolios (e.g., the Chicago Research in Security Prices (CRSP) equally-weighted or value-weighted indexes) that are known to be inefficient and hence are not appropriate for judging performance. In particular, these benchmarks generate abnormal performance that is related to firm size and dividend policy and thus are likely to generate negative performance measures for larger-than-average acquiring firms even if their actual performance is favourable.

Brown and Warner (1980) conclude that ‘beyond a simple one-factor market model, there is no evidence that more complicated methodologies convey any benefits. Dimson and Marsh (1986), demonstrated that the size effect can distort longer-term performance measures and hence event study results, unless it is explicitly taken into account in research design. Zhu and Malhotra (2008) tested the announcement effect on the Indian firms involved in US cross-border

acquisitions. They used CAR and BHAR methods to estimate abnormal returns in the long run. They stated that the Fama-French three factor model cannot be easily applied in the Indian stock market.

Shanken (1985) developed a cross-sectional regression test (CSRT) of the Capital Asset Pricing Model (CAPM) and explored its connection to the Hotelling T^2 test of multivariate statistical analysis. Algebraic relations between the CSRT, the likelihood ratio test and the Lagrange multiplier test were derived and a useful small-sample bound on distribution function of the CRST was obtained. An application of the CRST suggested that the CRSP equally-weighted index is inefficient, but that the inefficiency was not explained by a firm size-effect from February to December, 1985. This application illustrated the value of the multivariate test as a tool to be used in conjunction with more traditional methods and not necessarily as an alternative to those methods.

Franks et al (1991) focused on post-merger performance and examined whether the negative abnormal returns found in prior studies were due to an incorrect adjustment for risk. Their study is based on the viewpoint of the portfolio performance evaluation literature which emphasises that correctly adjusting returns for risk requires a benchmark that is mean-variance efficient. They evaluated post-merger performance with efficient multi-factor benchmarks. Past studies of post-merger performance have generally used single-portfolio benchmarks that are now known to be inefficient (Shanken, 1985). Hence, Franks et al used two-multiple-portfolio benchmarks in addition to using CRSP equally-

weighted index and the CRSP value-weighted index as single-index benchmarks. Their study included 399 acquisitions made by NYSE and AMEX firms and measured over 36 months after takeover during the period January 1975 to December 1984. Their findings show that different benchmarks generate very different measures of abnormal performance for the same given sample. The performance measures against the equally- and value-weighted indexes are significantly different from each other and have opposite signs. The value-weighted index generates significant positive post-merger abnormal performance of over 0.3% per month whereas the equally-weighted index generates monthly abnormal performance of about – 0.2%. On the other hand, the ten-factor and eight factor benchmarks yield no evidence of abnormal post-merger performance. Their conclusions are consistent with Jensen and Ruback (1983), and the results indicate that the prior findings of negative post-merger share-price performance for bidders are more likely due to benchmark errors than to mispricing at the time of announcement.

Agrawal, et al (1992) concluded that existing literature on the post-merger performance of acquiring firms is divided and hence they re-examined the issue by considering an exhaustive sample of mergers between NYSE acquirers and NYSE/AMEX targets. They found that stockholders of acquiring firms suffered a statistically significant loss of about 10% over the five-year post-merger period, a result robust to various specifications. They concluded that the issue was by no

means resolved, because of methodological problems and conflicting results of prior studies.

Lindenberg and Ross (1981) investigated the relationship of Tobin's Q to industry market structure. Lindenberg and Ross (1981) find that the Tobin's ratios of firms are stable over time and that firms with high Tobin's ratios tend to have unique products and factors of production, all of which contribute to earnings in excess of the minimum necessary to induce the firm to produce in the short run. Firms with low Tobin's ratios are typically in relatively competitive or tightly regulated industries. Lindenberg and Ross (1981) find a high correlation between price-cost margins and Tobin's, but a low correlation between q and concentration ratios. Even if the estimate of Tobin's is biased due to measurement errors, it may be possible to analyse the relationship between Tobin's and market structure in a regression, as long as one adjusts for the measurement problems by adding variables like the advertising-sales ratio and research and development costs. This procedure is similar to that used in the price-average variable cost regressions.

Kothari and Warner (1997) used four models; market-adjusted model, market model, capital asset pricing model (CAPM), and Fama-French three factor model (FF). Ikenberry, Lakonishok and Vermaelen (1995) used CAR and BHAR methods to study long term performance. Hazelkorn, Zenner, & Shivdasini (2004) calculated for industry-adjusted long-term excess returns. The methodology they used is similar to the one they used for the short-term calculation of market-adjusted excess returns except that they substituted the

return on an appropriately chosen industry index for the S&P 500. The estimation period is one year prior to announcement and ends 30 days prior to the announcement date. The alpha (intercept) and beta (slope) are estimated from this regression. The one-day “expected return” is equal to alpha plus beta, times the return on the market index. The one-day excess return for a stock is equal to the stock’s actual return less its expected return.

4.7 Challenges in estimating expected returns for Long Term periods

There are many studies in finance and financial economics analysing the long-run behaviour of stock returns following major corporate decisions like mergers and acquisitions, stock splits, and dividend declaration. It is evident from the literature that estimating abnormal returns in the long horizon is a challenging issue for researchers.

Over a long horizon, the variations in expected return estimates across different benchmark models can be large (Ball, 1978), (Fama, 1992). Thus, long-horizon results are potentially very sensitive to the assumed model for generating biases and misspecification (Eugene & French, 1993), although the market model could, in principle, circumvent this problem (Schwert, 1983). The degree of misspecification is not highly sensitive to the model employed (Kothari & Warner, 1997). Kothari and Warner (1997) studied the distributional properties of long-horizon abnormal returns and concluded that the skewness exists but it does

not drive to test misspecification. Procedures that do not require pre-event parameters, e.g., matched-portfolio procedures are also found to be mis-specified (Ikenberry, et al., 1995). Care must be taken when calculating long-run performance, because the findings can be sensitive to the procedures used (Chopra, Josef, & Jay, 1992).

According to Kothari and Warner (2006), in long horizon tests, appropriate adjustment for risk is critical in calculating abnormal price performance. This is in sharp contrast to short-horizon tests in which risk adjustment is straightforward and typically unimportant. The error in calculating abnormal performance due to errors in adjusting for risk in short-horizon tests is likely to be small. Daily expected returns are about 0.05% (i.e., annualised about 12-13%). Therefore, even if the event firm portfolio's beta risk is mis-estimated by 50% (e.g., estimated beta risk of 1.0 when true beta risk is 1.5), the error in the estimated abnormal error is small relative to the abnormal return of 1% or more that is typically documented in short-window event studies. Not surprisingly, Brown and Warner (1985) conclude that simple risk-adjustment approaches to conducting short-window event studies are quite effective in detecting abnormal performance.

Kothari and Warner (2006) discussed the problems of risk adjustment at length and stated that the problem of risk adjustment error is exacerbated in long-horizon event studies because the potential for such error is greater for longer horizons. In many event studies, (1) the event follows unusual prior performance (e.g., stock splits follow good performance), or (2) the event sample consists of firms with

extreme (economic) characteristics (e.g., low market capitalisation stocks, low-priced stocks, or extreme book-to-market stocks), or (3) the event is defined on the basis of unusual prior performance (e.g., contrarian investment strategies in DeBondt and Thaler, 1985, and Lakonishok, Shleifer, and Vishny, 1994). Under these circumstances, accurate risk estimation is difficult, with historical estimates being biased because prior economic performance negatively impacts the risk of a security (Binder, 1998). Therefore, in long-horizon event studies, it is crucial that abnormal-performance measurement be on the basis of post-event, not historical risk estimates (see Ball, Kothari, and Shanken, 1995, and Chopra, Lakonishok, and Ritter, 1992).

The prior literature shows evidence that for a particular benchmark, the results using the event-time and calendar-time (portfolio) approaches are similar. However, different benchmarks may generate very different measures of abnormal performance (Franks, et al., 1991). The standard event study methodology involves the use of Sharpe's (1964) market model, or of alternative adjustments for market movements such as the ex-post forms of the Sharpe (1964); Black (1972) CAPM. Issues were raised in prior literature questioning the integrity of the CAPM approach, since it is recognised that event studies entail a joint hypothesis about market efficiency and the validity of the benchmark employed (Dimson & Marsh, 1986). However, most research in this area suggests that simple adjustments for market movements are usually adequate. In simulated event studies, the gains from using more complex models appear small. Most

event studies therefore continue to use CAPM or market models. Alternative benchmarks are used only in studies where the stocks come from a single industry, e.g., Collins and Dent (1978) and Dyckman and Smith (1979).

Dutta and Jog (2009) acknowledged that there are still controversies surrounding long-term performance methodologies that may distort empirical results. For example, it is argued that BHAR lacks statistical power (Kothari and Warner, 2006), and that the Fama-French three factor approach suffers from model specifications. There are two unpublished papers by Connor and Shegal (2001) and Bahl (2006) who tested the relationship between the FF-Model and CAPM in an Indian context. Their empirical results suggested that the FF-three factor model has a higher explanatory power than the CAPM. Kothari et al (S P Kothari, Jay, & Sloan, 1995) cast doubt on the explanatory power of book-to-market equity and see evidence of size effect in explaining the average returns. Loughran and Ritter (2000) worry that the calendar-time portfolio approach is not well suited for detecting abnormal performance associated with events, such as mergers, that are clustered across time.

Barber & Lyon (1997) evaluated three approaches for developing a benchmark to estimate abnormal returns. They include (1) a reference portfolio, (2) an appropriately matched control firm, and (3) an application of the Fama-French three factor model. They argue that the long buy-and-hold abnormal returns should be calculated as the long-run-buy-and-hold return of a sample firm less the long-run return of an appropriate benchmark, which is referred to as BHAR. Most

importantly, they identified a method of measuring long-run abnormal returns that yields well-specified test statistics. They document that matching sample firms to control firms of similar size and book-to-market ratios yield well-specified test statistics. By matching sample firms to control firms on specified firm characteristics, they could alleviate the new listing bias (since both sample and control firms are listed in the identified month), the rebalancing bias (since the returns of the sample and control firms are compounded in an analogous fashion), and the skewness bias (since abnormal returns calculated using this control firm approach are reasonably symmetric).

4.8 Estimation period used in the prior findings

Brown and Warner (1985) employed simulation procedures using actual stock return data to investigate the distribution of excess returns and the empirical properties of the test statistics. They examined 250 samples of 50 securities which had been randomly selected. The data is obtained from Center for Research in Security Prices at the University of Chicago (CRSP). Each time a security is selected, a hypothetical event day is generated. Events are selected with replacement and are assumed to occur with equal probability on each trading day from July 2, 1962, through December 31, 1979. The estimation period is 239 days prior to the event period. The condition for the security to be included in a sample is that it must have at least 30 daily returns in the entire 250 day period, and no missing return data in the last 20 days. The event period is 11 days (-5 to +5).

Markides and Oyon (1998) tested the valuation consequences of international acquisitions with the total sample of 236 acquisitions consisting of 47 Canadian and 189 European acquisition announcements. Standard event-study methodology was used to assess the impact of acquisitions announcement on shareholders wealth. The estimation period was six months (alternatively, expressed as 126 days). The event window is two days (0, +1).

Liang (1999), investigated if the analysts' recommendations in the "Dartboard" column of the Wall Street Journal have an impact on stock prices and whether this impact is temporary or long-lived. The period of study is from January 1990 to November 1994 and included 54 contests. The estimation period used was 100 days (-125 through day -26).

Ruiz, Gonzalbez and Moreno (2002) examined the determining factors of firm performance in Spain as a direct consequence of its diversification strategy in its expansion into foreign markets, considering factors like the market, the product and the company itself. The period of study was 1992 to 1996 and included 35 news releases of 11 companies. They used the event study methodology to estimate the excess of returns. They employed the market model, the event window they considered was -5, 0, +5 and the estimation period was 75 days (-80 to -6).

Ruiz, Gonzalbez and Moreno (2002), examined the determining factors of a firm's performance, as a direct consequence of its diversification strategy in its

expansion into foreign markets, considering certain factors like the market, the product and the company itself. They used event-study method to estimate the excess returns generated by its shares on the stock market, based on a sample of 35 expansion announcements into external markets corresponding to 11 diversifying companies in Spain. They also carried out a regression analysis to examine the impact of these factors, market, product and company, on the excesses in returns observed. They concluded that positive and significant returns are detected on the day following publication of the event ($t=1$) as well as CAR on two days (0; +1). They suggested that, on average, the market reacts positively to the announcement of a company's diversified expansion into external markets.

Hazelkorn, Zenner, & Shivdasini (2004) used the market model to test the announcement effect. The market-adjusted "excess return" around the announcement date is equal to the total return adjusted for general market movements over a pre-specified window surrounding the announcement. They first determined a stock's "beta" by regressing returns on the stock in question against the returns of a market index (we use the S&P 500) over a period that begins one year prior to the announcement and ends 30 days prior to the announcement.

Goergen and Renneboog (2004) analysed the short-term wealth effects of large intra-European takeover bids for the period 1993-2000. They found announcement effects of 9% for the target firms compared to a statistically significant announcement effect of only 0.7% for the bidders. They concluded that

the type of takeover bid has a large impact on the short-term wealth effects, with hostile takeovers triggering substantially larger price reactions than friendly operations. When a UK firm is involved, the abnormal returns are higher than those bids involving Continental European targets and bidders. They found evidence that the means of payment in an offer has an impact on the share price. A high market-to-book ratio of the target leads to a higher bid premium, but triggers a negative price reaction for the bidding firm. They also investigated whether the predominant reason for takeovers was synergies, agency problems or managerial hubris. Their results suggest that synergies are the prime motivation for bids and targets and bidders share the wealth gains.

Martynova, Oosting and Renneboog (2006) investigated the long-term profitability of corporate takeovers where all acquiring and target companies were from Continental Europe or the UK. Their study found that the acquiring and target companies significantly outperformed the median peers in their industry prior to the takeovers, but the raw profitability of the combined firm decreased significantly following the takeover. However, their study found that the decrease became insignificant after controlling for the performance of the peer companies which were chosen in order to control for industry, size and pre-event performance. None of the takeover characteristics (such as means of payment, geographical scope, and industry-relatedness) explain the post-acquisition operating performance. Still, they found an economically significant difference in the long-term performance of hostile versus friendly takeovers, and of tender

offers versus negotiated deals: the performance deteriorated following hostile bids and tender offers. The acquirer's leverage prior takeover seems to have no impact on the post-merger performance of the combined firm, whereas the acquirer's cash holdings are negatively related to performance. This suggests that companies with excessive cash holdings suffer from free cash flow problems and are more likely to make poor acquisitions. Acquisitions of relatively large targets result in better profitability of the combined firm subsequent to the takeover, whereas acquisitions of a small target lead to a profitability decline.

Zhu and Malhotra (2008) used standard event analysis method to examine the impact of cross-border M&As on the Indian acquiring firms' stock price. They used the mean-adjusted return model to calculate the abnormal returns and the estimation period was 120 to 30 days prior to the M&A announcement. The event period was five days before the announcement and 20 days after the announcement date. The period of study was 1999-2005.

Ahern (2009) performed simulations to compare a battery of short-run event study prediction and testing methods; simulating 1000 samples of 250 securities each by random selection with replacement from a sub-set of securities in the CRSP Daily Stock dataset between January 1965 and December 2003. The abnormal returns are generated and tested by the introduction of artificial performance and variance on event date returns. The estimation period is 489 days (-244, +244) where the pre-event estimation period is defined as (-244, -6), the event period is (-5, +5), and the post-event estimation period is (+6, +244). However, if a firm has at least

50 non-missing returns in the pre-event estimation period, at least 50 non-missing returns in the post-event estimation period, and no missing observations in the period (-15, +15), then it is included in the sample.

4.9 Emerging¹⁰ and Transition Market Studies

Emerging markets are entering the global markets following the economic reforms initiated in their respective countries. The following literature unfolds the empirical evidence.

According to Cartwright and Cooper (1993), effective acquisitions have been used to achieve rapid entry into high growth markets, acquire expertise, technology, products, brands, market presence, experienced management, reduce exposure to risk, and to complement on going internal product development. They minimise the costly time lag associated with the internal development of products, markets, and their required supporting structures; and are particularly useful where product

¹⁰ An emerging market economy (Clement & Tse) is defined as an economy with low to middle per capita income. Such countries constitute approximately 80% of the global population, and represent about 20% of the world's economies. The term was coined in 1981 by Antoine W. Van Agtmael of the International Finance Corporation of the World Bank.

Although the term "emerging market" is loosely defined, countries that fall into this category, varying from very big to very small, are usually considered emerging because of their developments and reforms. Hence, even though China is deemed one of the world's economic powerhouses, it is lumped into the category alongside much smaller economies with a great deal fewer resources, like Tunisia. Both China and Tunisia belong to this category because both have embarked on economic development and reform programs, and have begun to open up their markets and "emerge" onto the global scene. EMEs are considered to be fast-growing economies (www.investopedia.com).

life-cycles are short or the danger of a profitable market window closing is high (Cartwright & Cooper, 1993; Haspeslagh & Jemison, 1991).

Kumar and Alka Chadha (2008) examined the case of the steel industry that has become an important sector of overseas activity for Chinese and Indian companies with a string of major acquisitions of foreign MNEs for acquiring footprints and natural resources in order to identify the sources of ownership advantages and strategies of outward investments from emerging countries. The study pointed out that Indian and Chinese enterprises have emerged as important outward investors in recent times with their involvement in a number of prominent greenfield investments and acquisitions.

Ma, Pagan and Chu (2009) studied abnormal returns to shareholders of bidder firms around the day of M&A announcement for ten emerging Asian Markets: China, India, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand. Using a sample of 1,477 M&A deals in the ten emerging Asian markets, they found positive cumulative abnormal returns in three different event windows: a two-day (0,1) window, a three-day (-1, +1) window, and a five-day (-2, +2) window. The findings suggest that the investors reap benefits associated with M&A deals.

Matej Lahovnik (2011) examined the factors that influenced the performance of acquisitions in Slovenia and found that the strategic and organisational fit between companies involved in M&A play an important role in improving the operational

performance of the acquired companies in the post-acquisition period. Successful acquirers not only had a background in detecting below-average or less than full potential performance, but they also had some skills and competencies to improve the performance of an acquired firm.

Bertrand and Betschinger (2011) compared the effect of domestic and international M&As in a Russian context. They found rather negative effects associated with acquisitions. However, their study shows that firm resources are of relevance and can be leveraged in domestic deals to improve the impact of acquisitions. Furthermore, their findings suggest that emerging market firms suffer from the inability to leverage value due to low M&A experience and capabilities, especially when making international acquisitions. Also, high-tech firms seem to be able to draw larger benefits from cross-border transactions than domestic ones, taking advantage of new market opportunities abroad.

4.10 Empirical findings from Indian context

Literature reviewed in this section is different from earlier empirical studies because it deals with the prior literature from an Indian context.

Kumar (1995) examined the trends and patterns in FDI inflows into India over the post-independence period as well as the emergence of Indian enterprises as direct investors abroad in the background of a changing regime. Their findings revealed a shift in the sectoral pattern of FDI in India inward and outward moving in favour of more technology and skill-intensive industries as the country

industrialised itself. The study states that the Indian government policies played a significant role in shaping the pattern of FDI by affecting relative configuration of ownership, internalisation and locational advantages of foreign investors in the country.

Ranjan (1997) looked at the growing economic power of emerging nations and the implications so far as world-wide strategies of MNCs are concerned. The study identified a range of strategic choices that MNCs can initiate to exploit opportunities that are opening up in newly liberalising economies, as well as factors that influence such choices. The study also provides a framework which describes a set of “defensive” strategies that domestic firms can pursue to respond adequately to the offensive strategies of MNCs. The study gives details about the managerial implications of the findings and also provides directions for future research.

Beena (1998) analysed the significance and characteristics of mergers following the liberalisation movement. The study suggests that acceleration of the merger movement in the early 1990s was accompanied by the dominance of mergers between firms belonging to the same business group with similar product lines. The participation of foreign-controlled firms in the merger process has increased significantly since 1992-93. The study argues that the merger wave in the early 1990s was more a means of internal restructuring rather than an instrument to further the product market or asset share.

Pradhan & Abraham (2004) examined the patterns and motivations behind the overseas M&As by Indian enterprises. The study found that a large majority of overseas M&As originated within the services sector, led by the software industry and were directed towards developed countries. The main motivations for Indian firms' overseas acquisitions were to access international markets, firm-specific intangibles such as technology and human skills, benefits from operational synergies, to overcome constraints from limited home market growth, and to survive in an increasingly competitive business environment.

Kumar (2006) analysed the trends, patterns and determinants of outward investments by Indian enterprises that have increased notably since the onset of economic reforms. He developed an analytical framework for explaining the probability of an Indian enterprise investing abroad using a large dataset of Indian enterprises. The findings of the study suggest that Indian enterprises draw their ownership advantages from their accumulated production experience, cost effectiveness of their production processes and other adaptations to imported technologies made with their technological effort, and sometimes with their ability to differentiate product. Firm size exerts a positive but a non-linear effect. Enterprises that are already in export markets are more likely to be outward investors. Finally, policy liberalisation during the 1990s has pushed Indian enterprises abroad.

Prasad (2007) analysed the trends, direction and composition of cross-border M&As in India. The study throws light on certain issues and examines the

preparedness of the regulatory authorities in India to frame suitable guidelines for M&As. M&As have emerged as a natural process of business restructuring throughout the world. In India, the early M&As were arranged either by government agencies or by the financial institutions within the framework of a regulated regime. However, since 1991, Indian industries have been increasingly exposed to both domestic and international competition. This has forced the Indian corporate sector to restructure and re-engineer in order to be competitive.

Indian industries have undergone significant structural change due to changes in the regulatory policies in the post liberalisation period. Although the liberalisation programme has progressed considerably, overseas investors perceive the degree of openness to be low. The recent upsurge in M&A in India coincides with a current wave of international M&A. Prasad (2007) takes the view that the regulatory/policy framework in India needs to be modulated carefully to prevent adverse effects associated with M&As.

Deepak (2008) analysed the rapid expansion in outflows of foreign direct investment from India and the spurt in foreign acquisitions by Indian firms, in the decade to 2007, situated in the wider context of international investment from developing countries. Much of the investment is in manufacturing activities and most of the acquisitions are in industrialised countries. The economic stimulus and the strategic motive for the internationalisation of firms from India are provided by a range of underlying factors driving the process, which differ across sectors and firms. The rapid growth in investment and acquisitions by Indian

firms are partly attributable to factors implicit in the liberalisation of the policy regime and the greater access to financial markets. Deepak (2008) also feels that it must be recognised that Indian firms cannot have become international without the capacity and the ability to compete in the world market. The attributes of Indian firms, which created such capacities and abilities, are embedded in the past and have emerged over a much longer period of time.

Sayantana. G (2008), presents an overview of the Indian cross-border mergers and acquisitions. They presented the procedural aspects as to the applicable laws relating to cross-border mergers and acquisitions by Indian firms. The study also presents overseas direct investment which had been playing a part for the cross border mergers and acquisitions. Further, the study concludes by summing up the reforms recommended by the Irani Report and by discussing the various transactional issues required for finalizing an acquisition.

Kumar & Bansal (2008) studied claims made by the Indian corporate sector that they were going for domestic M&As to generate synergy and examined whether or not , these synergies were being achieved. The study assumed that while going for mergers and acquisitions, management expect financial synergy or/and operating synergy in different ways. This empirical study was based on secondary financial data and used tabulation, ratio analysis and correlation techniques for analysis. The results indicated that in many cases of M&A, the acquiring firms were able to generate synergy in the long run in the form of higher cash flow, more business, diversification, cost cuttings, etc.

Kumar (2008) examined the sources of Indian companies' ownership advantages and trends, patterns and implications. He argues that the source of their ownership or competitive advantage lies in their accumulation of skills for managing large multi-location operations across diverse cultures in India and in their ability to deliver value for money with their frugal engineering skills honed while catering to the larger part of the income pyramid in India.

Zhu & Malhotra (2008) examined the short-term stock performance of a sample of Indian firms acquiring US firms in the period 1995-2005. Their event study showed that the Indian stock market reacts positively to the acquisition announcement. However, they found that the positive returns last for only three days, after which the returns become negative. They concluded that announcement returns in cross-border M&As are mainly driven by the pressure effect rather than the informational effect.

Kale (2009), examined if the small-sized overseas acquisition by an Indian company created value for its shareholders, in terms of abnormal stock market gains following acquisition announcement. The study considered overseas acquisition deals closer to \$ 48 million only. Their sample included 412 overseas acquisitions done by publicly-listed Indian firms during 1999-2008. The findings show that, on average, created a value of +1.76% (in terms of abnormal stock returns) for shareholders of the Indian acquirer firms. The average value creation in the first 5 years of this period (1999-2003) was +2.89%, whereas in the latter 5

years (2004-2008) it was down to +1.51%. Acquisitions of companies in developed economies, which account for almost three-fourths of the total number, created more value (+2.26%) for Indian companies than of companies in developing economies. The value creation in the latter case was statistically not different from zero.

According to Rajan (2009), OFDI by Indian corporates has been aiming at accessing high-growth markets, buying brand names, acquiring technology, processes, management know-how and marketing and distribution networks, consolidating existing markets and seeking new ones. Their outward push has been facilitated by policy reforms. While the first wave of Indian OFDI pre-liberalisation was made by a handful of firms and concentrated largely on Asian and African developing countries, the second wave of Indian OFDI post-liberalisation, especially since 2000, has been to developed countries primarily in the form of M&A, as opposed to greenfield¹¹ establishments, with participation by many Indian firms (Rajan, 2009).

Athukorala (2009) examined emerging patterns and economic implications of Indian foreign direct investment against the backdrop of the evolving role of

¹¹ Greenfield strategy is to establish a business from the start. This strategy is more appropriate to the firms which have competitive advantage. It is also referred as organic growth. Brownfield strategy is opposite to Greenfield strategy (Lawrence et al, 2010).

developing country firms (emerging multinational enterprises) as an important force of economic globalisation.

Kumar (2009) examined the post-merger operating performance of Indian acquiring companies involved in merger activities during the period 1999-2002. The study is intended to identify synergies, if any, resulting from mergers. The study compares the pre-merger and post-merger performance of companies using accounting data (ROCE) to examine merger related gains to the acquiring firms. It is observed that post-merger profitability, assets' turnover and solvency of the acquiring companies, on average, show no improvement when compared with pre-merger values. It appears that, contrary to common beliefs and expectations, mergers usually do not lead to an improvement in the acquirer's financial performance.

Sharma (2009) tested the efficiency of the Indian stock market by considering open offer as an event, using the market-adjusted abnormal return model. The study considered domestic mergers and acquisitions. The focus of the study was to examine the efficiency of the capital market for open offers as they frequently take place in India. The Securities and Exchange Board of India (SEBI) Regulation Act of 1997 clearly specified the requirements for making an open offer. This made it obligatory on the part of the acquirer to make an open offer for at least 20% of the issued capital. Their study concludes that markets are not efficient in the semi-strong form.

Singh and Jain (2009) examined India's outward foreign direct investment in an evolutionary perspective. Besides tracing the emerging pattern of India's outward foreign direct investment, the study hints at the facilitating role of state policy to encourage the outflow of foreign direct investment. The study provides insights into the achievement of the Indian economy and provides a review of theory and practice of emerging multinationals from developing countries.

Rajan (2009) presented data on the magnitude and composition of Indian outward foreign direct investment (FDI). While India has become an attractive destination for foreign capital, the country is also becoming a significant source of outflows. Many Indian enterprises view outward investments as an important dimension of their corporate strategies. The study discussed the rationale for and the empirical determinants of overseas acquisitions by Indian companies and concludes with a broader discussion of the impact of the global rise of Indian companies on the Indian economy.

Beena (2010) examined the nature, extent and structure of cross border mergers and acquisition (CBMA) deals in India and found that the current surge in cross-border deals involves the push factors from home country such as market constraint, need for low priced factors of production, increasing global competition as well as the pull factors from foreign firms such as the wider market, technology and efficient operation and suggests that CBMA should be viewed from a multi-factor dimension.

Sinha and Kaushik (2010) examined the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. They used two approaches. First, by using the ratio analysis approach, they calculated the changes in the position of the companies during the period 2000-2008. Second, they examined changes in the efficiency of the companies during the pre- and post-merger periods by using a nonparametric Wilcoxon signed rank test. They found a significant change in the earnings of the shareholders, and no significant change in the liquidity position of the firms. The result of the study indicates that the acquiring firms are able to generate value.

Gubbi, Aulakh, Ray, & Chittoor (2010), conducted an event study of 425 cross-border acquisitions by Indian firms during 2000–2007. Their study examined, (1) if the International acquisitions by Indian firms generate positive abnormal returns/value for acquiring firms' shareholders and (2) if international acquisitions that are made by emerging-economy firms, those that involve target firms in more advanced economies (characterized by higher-quality complementary resources and developed institutional environment) will generate greater abnormal returns/value. Their findings show positive abnormal returns to the acquiring firms in the post-acquisition period. They argue that international acquisitions facilitate internalization of tangible and intangible resources that are both difficult to trade through market transactions and take time to develop internally, thus constituting an important strategic lever of value creation for emerging-economy firms. Furthermore, the magnitude of value created will be higher when the target

firms are located in advanced economic and institutional environments: country markets that carry the promise of higher quality of resources, and therefore, stronger complementarity to the existing capabilities of emerging economy firms.

4.10.1 Indian Stock Market Studies

Srivastava (1984) examined the relationship between earnings and dividends on stock market performance. They examined 327 companies for the year 1982-83 and concluded that high dividend rates are associated with higher market prices of securities. The study found that the Modigliani-Miller model is not applicable in the Indian context.

There are several studies from India that have commented upon the Indian capital market in general, and trading systems in the stock exchanges in particular, and which suggest that the systems therein are rather antiquated and inefficient and suffer from major weaknesses and malpractices. According to most of these studies, significant reforms are required if the stock exchanges are to be geared up for the envisaged growth in the Indian capital market. The studies include: Sahn (1985), Kothari (1986), Lal (1990), Chandra (1990b), Francis (1991), Ramesh Gupta (1992) (1991), Raghunathan, Varma (1992), Gupta (1992) and Sinha (1983).

The investment decision making process of individuals has been explored through experiments by Barua and Srinivasan (1986) (1991) (1987). They concluded that the risk perception of individuals is significantly influenced by the skewness of

the return distribution. This implies that while taking investment decisions, investors are concerned about the possibility of maximum losses in addition to the variability of returns. Thus the mean variance framework does not fully explain the investment decision making process of individuals.

Bhat (1988) studies the relationship between the regional market indices in the Indian stock market over the period 1971-85 using monthly data. He finds that the regional price indicators respond immediately to the all India index, but cautions that his study is not adequate to conclude the existence of an integrated national market.

Subramaniam (1989) found that in the case of political events, the market appeared to respond more efficiently to events where the impact on share values was characterised by low complexity and high clarity. The market seemed to have difficulty with ambiguous and complex events. Ramachandran (1985) and Srinivasan (1988) found that the market was by and large efficient in responding to the information content of bonus issues and rights issues respectively.

4.11 Boards and Performance

The literature relating to boards of directors is reviewed in order to understand the dynamics of boards in decision making and value addition.

Yermack (1996) found a negative relationship between board size and firm market value, using a sample of large US public companies. Similar results were reported

using European data. Eisenberg, Sundgren & Wells (1998) studied small non-listed Finnish firms and found a negative correlation between firm profitability and the size of the board. The study by Conyon and Peck (1998) showed inverse relationships between return on shareholders' equity and board size for five European countries. Expanding the number of directors provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal. Besides, large boards may be able to draw on a variety of perspectives on corporate strategy and may reduce domination by the CEO (Forbes & Miliken, 1999); (Goodstein, Gautam, & Boeker, 1994). However, increasing board size might significantly inhibit board processes due to potential problems with group dynamics associated with large groups. Larger boards are more difficult to coordinate and may experience problems with communication and organisation. Furthermore, large boards may face decreased levels of motivation and participation and are prone to develop factions and coalitions. Finally, boards may have difficulties to further cohesiveness and may suffer from a diffusion of responsibility or "social loafing" often found in large groups. Consequently, these group dynamic problems may hinder boards of directors in reaching a consensus on important decisions and may put a barrier on the ability of the board to control management (Judge & Zeithaml, 1992; Goodstein et al., 1994; Eisenberg et al., 1998; Forbes & Milken, 1999; Golden & Zajac, 2001).

The number of directors is a relevant feature that can have much to do with board monitoring and control activity. In fact, the ability of the board to monitor can

increase as more directors are added, but the benefits can be outweighed by the costs in terms of poor communication and decision-making associated with larger groups (Lipton & Lorsch, 1992); (Jensen, 1993), along with the fact that the CEO may be more likely to control the board of directors. There are number of studies focusing on the role and proportion of inside, outside and independent directors. In general, two theories form the basis for the reliance on insider or outsider-dominated boards. Agency theory focuses on the conflicts of interest that occur among the shareholders (principals) and the managers (agents), stemming from the separation of ownership and control. Managers who gain control may have the potential to pursue actions that maximize their self-interest at the expense of the shareholders. The board of directors is one of the mechanisms designed to monitor these conflicts of interest (Jensen & Meckling, 1976; Fama & Jensen, 1983). Thus, from an agency perspective, boards should be able to act independent of management and therefore must include a preponderance of outside directors.

The opposite perspective is grounded in stewardship theory. According to stewardship theory, managers are good stewards of company assets. Managers do not misappropriate corporate resources at any price because they have a range of non-financial motives, such as the intrinsic satisfaction of successful performance, the need for achievement and recognition, etc. Reallocation of control from shareholders to management leads to maximization of corporate profits and hence,

shareholders return (Muth & Donaldson, 1998). Following this reasoning, boards of directors dominated by insiders are preferable.

Academic research provides evidence that supports both perspectives. The effect of outsider-dominated board on performance is indeed contradictory. Greater representation of outside directors on the board has a negative impact on firm performance, as measured by Tobin's Q (Agrawal & Knoeber, 1996) and on Market Value Added (Coles, McWilliams, & Sen, 2001). In contrast, Rosenstein and Wyatt (1990) found that a clearly identifiable announcement of the appointment of an outside director leads to an increase in shareholders' wealth. Baysinger and Butler (1995) also reported that firms with higher proportions of independent directors ended up with superior performance records. Wagner et al (1998) conclude that both greater insider and outsider representation can have a positive impact on performance, while other studies conclude that there is virtually no relationship between board composition and firm performance (Dalton, Daily, Ellstrand, & Johnson, 1998; Hermailin & Wiesbach, 2000).

Evidence suggests that board composition is also related to strategic decisions taken by the board and to the monitoring of management. Outsider-dominated boards are more involved in restructuring decisions (Johnson, Ellstrand, & Daily, 1996) and positively influence diversification strategies (Baysinger & Hoskisson, 1990). Similarly, higher insider representation has a negative effect on overall board involvement in the strategic decision-making process (Judge & Zeithaml, 1992). The presence of outside directors has a negative implication for the

intensity of R&D (Baysinger and Hoskisson, 1990). The inclusion of insiders in the board may be useful because they have access to information relevant to outside directors in assessing both strategic initiatives and managerial performance (Fama & Jensen, 1983; Baysinger & Butler, 1995).

CEO duality has been the dominant board leadership structure of US corporations, in which 70-80% of them combine the roles of chief executive officer (CEO) and chairperson (Rechner & Dalton, 1991). However, the prevalent corporate governance practice in Europe separates the CEO and chairperson, while only 10% of UK publicly-listed companies combine these two roles (Coles, et al., 2001; Higgs, 2003; Kang & Zardkoohi, 2005). On the other side of the world, the board leadership structure of Asian companies lies in the middle of these two extremes. Hong Kong is a former British colony and has a well-developed regulatory framework and capital market. Hong Kong companies are characterised by their concentrated ownership, and most have a major shareholder or controlling family (HKSA, 1995; Claessens, Djankov, & Lang, 2000a). The proportion of CEO duality for public companies in Hong Kong was 54% in 1996 (Gul & Leung, 2004), and 52% from 1995 to 1998 (Chen, Cheung, Stouraitis, & Wong, 2005). India and Hong Kong companies do not have the same corporate governance structure as the US and Western companies, so the empirical findings for US companies may not apply to Hong Kong and other Asian companies.

Most of the research suggests that paying high premiums is likely to result in negative firm performance, due to an inability to earn adequate returns beyond the

premiums paid (Datta, et al., 1992). A large premium places a major burden on managers of the acquiring firm to recoup those costs and extract sufficient synergies from the merged firm. Research suggests that about 70% of acquiring firms fail to deliver the necessary results to recoup the premium payment (Sirower, 1997).

One reason for high premiums is executive hubris (Roll, 1986). In this context, hubris is executives' overconfidence that they can achieve the synergy projected when the firm is acquired and integrated. Yet, firms acquired where hubris is a major factor are unlikely to achieve the needed synergy. As a result, firms may pay too high a premium and are unable to earn adequate returns to compensate for the premium and also produce a positive return (Hayward & Hambrick, 1997). When hubris is instrumental in the acquisition, it is not uncommon for the CEO to do a less than adequate job of due diligence or to ignore negative information provided by the due diligence process (Hitt, Harrison, & Ireland, 2001).

4.12 Conclusions

It is evident from the literature reviewed above that most of the studies conducted are from mature markets and the findings reveal varied results relating to the abnormal returns around the event window. The outcomes of the empirical findings are mixed. There is no unanimity in their findings in short-term and long-term studies.

The review of the literature also reveals various issues relating to benchmarking and shows how the use of various benchmarks might produce different results given the same sample. The literature reviewed the experiences of mature markets and emerging markets with special reference to Indian studies. The study also reviewed the methods used in prior studies and identified the gaps in the literature.

Majority of the Indian studies documented in the literature are focused on examining the trends and patterns of OFDI in India, regulatory issues, motives and magnitude and composition of Indian OFDI. Notable among them is the emerging pattern of India's outward foreign direct investment under influence of state policy: a macro view (Singh & Jain, 2009; Nayyar, 2008; Rajan, 2000 & Kumar 2008). The study of Kale (2009) considered only small scale companies which involved the investments less than USD\$48 million. The study of Gubbi, Aulakh, Ray, & Chittoor (Gubbi, et al., 2010) examined the post-acquisition performance for a sample size of 412. Their study did not examine the short term announcement effect. The study of Zhu & Malhotra, (2008) considered short term and long term performance of Indian acquiring firms. But it is limited in scope in which it considered only service sector cross border mergers and acquisitions by Indian corporates in the US only.

The study is important because it is the first to assess the success of Indian corporates involved in overseas investments from the short term and long term perspective and across sectors. The study now proceeds to look into the experience of the Indian corporates involved in OFDI related M&As. The

following chapter will present research methods to assess the performance of the Indian corporates involved in OFDI related M&As.

Table 4-1: Evidence from Short-run Event Studies

Author(s) (year)	Period of study	Details of sample	Country	Event window	Main findings
Firth (1980)	1969-75	642 takeovers	UK	Announcem ent Month	Average cumulated residuals of -0.045 during the announcement month (statistical significance not reported).
Dodd (1980)	1970-77	151 takeovers	US	-40 to +40 days	Bidders earn -0.23% (insignificant) at the announcement date from completed bids.
Bradley <i>et al.</i> (1983)	1962-80	241 successful bidders and targets, 94 unsuccessfu l bidders	US	-20 to +20 days	Unsuccessful bidders gain, on average, 2.32% over -20 to $+1$ day, but lose 2.96% as soon as the bid failure is revealed ($+2$ to $+20$ days). Both statistically significant. Unsuccessful bidders exhibit insignificant gains of -0.64% over -20 to $+20$ day period.
Franks and Harris (1989)	1955-85	1058 bidders, 1898 target firms (all successful)	UK	-4 to +1 months	Bidders earn around 1% average abnormal returns during the announcement month (significant). During the period -4 to $+1$ month, bidders gain between 2.4% and 7.9% depending on the abnormal returns measure (both significant).
Lang <i>et al.</i> (1989)	1968-86	87 targets and bidders from successful tender offers	US	-5 to +5 days	Negative impact on bidder returns when the bid is made by a low Tobin's q firm. Acquirers earn 0.8% from unopposed bids and -0.14% from opposed bids (neither is significant).
Mitchell and	1980-88	228 hostile targets, 240 friendly	US	-1 to +1	Abnormal returns of -1.66% to acquiring firms that are restructured

Lehn (1990)		targets, 232 bidders		days	following the bid and 0.70% to acquiring firms that are not restructured in the post-bid period (both significant).
Lang <i>et al.</i> (1991)	1968-86	87 targets and bidders from successful tender offers	US	-5 to +5 days	Negative abnormal returns ranging from -6% to -7% from single, opposed bids (significant). Insignificant abnormal returns to multiple, opposed bids.
Smith and Kim (1994)	1980-86	177 bidders and targets	US	5 days before the initial bid and 5 days after the final bid	Bidders lose -0.23% over -1 to 0 days (significant).
Holl and Kyriazis (1997)	1979-89	178 successful bids	UK	0 to +2 months	Negative abnormal returns of -1.25% to bidders two months after the bid announcement (significant).
Higson and Elliot (1998)	1975-90	1660 acquirers and targets	UK	0 to +3 months	Insignificant gains between announcement until completion. Negative acquirer returns of -1.70% (significant) from the acquisition of large targets (i.e. >25% of acquirer's market capitalization).
Walker (2000)	1980-96	278 acquisitions, 230 mergers, 48 tender offers	US	-2 to +2 days	Negative market adjusted abnormal returns of -0.84% (significant). No significant abnormal returns based on the industry and size matched benchmark portfolios.
Sudarsanam & Mahate	1983-95	519 listed acquirers	UK	-1 to +1 day	Bidders earn abnormal returns of between -1.39% and -1.47% (all

(2003)					significant) using a variety of benchmarks.
Gupta & Misra (2004)	1980-98	285 mergers and acquisitions	US	-10 to +10 days	<p>Bidders lose a significant 1.57% over the -1 to 0 day period. Returns for the -10 to -2 days or +1 to +10 days are insignificant. The returns are calculated from a market model, based on an equally weighted market index.</p> <p>A regression of the sub-samples of bids with positive returns and those with negative returns shows that in the negative return regression, relative size does not matter. In the positive return regression, bids for targets with relatively high transaction values impact positively on announcement returns.</p>
Song & Walking (2004)	1985-01	5726 mergers and acquisitions	US	-1 to 0 days	Acquiring firms with a period of more than a year of ‘dormant’ bid activity receive a positive abnormal return of about 1%. Acquirers with a ‘dormant’ period of less than a year earn insignificant returns.
Campa & Hernando (2004)	1998-00	262 European mergers and acquisitions	EU	-30 to +30 days	Regulated EU acquirers lose -1.96% over 60 days around the bid announcement. Bidders from unregulated industries do not earn significant returns for the same period.
Ben-Amar & Andre (2006)	1998-00	238 mergers and acquisitions by 138 Canadian firms	Canada	-1 to +1 days	Acquiring firms earn 1.6% over 3 days. Returns are calculated using the market model.

Source: Compiled from prior studies

Table 4-2: Evidence from Long-run Event Studies

Author(s) (year)	Period of study	Details of sample	Countr y	Event window	Main findings
Firth (1980)	1969-75	642 takeovers	UK	-48 to + 36 months	-1.0% to unsuccessful and -4.8% to successful bidders over 84 months around the announcement date (statistical significance not reported).
Asquith (1983)	1962-76	285 takeovers	US	+1 to +240 days	Losses of -7.2% to successful bidders and -9.6% to unsuccessful bidders in the post-outcome period (both significant).
Bradley <i>et al.</i> (1983)	1962-80	241 successful and 94 unsuccessful bidders	US	-6 to +60 months	No significant gains to unsuccessful bidders over the period -20 to +180 days following the bid announcement.
Malatesta (1983)	1969-74	256 acquiring firms	US	-60 to +12 months	0.043% average abnormal return from -60 months until the announcement month (significant). -0.054% average abnormal return (significant) from month 1 after the bid until 6 months afterwards.
Franks and Harris (1989)	1955-85	1058 bidders, 1898 target firms, all successful	UK	0 to +24 months	-12.6% significant average abnormal return from the market model. +4.5% average abnormal return (significant) from the CAPM.
Limmack (1991)	1977-86	529 mergers and acquisitions	UK	0 to +24 months	Insignificant -1.66% from month 0 to 12 months after the bid and insignificant -4.67% over 24 months (CAPM). - 5.55% (significant) after 12 months and -14.96% (significant) after 24 months

					(Market Model).
Agrawal <i>et al.</i> (1992)	1955-87	937 mergers and 227 tender offers	US	0 to +5 years	Abnormal returns of -10.26% (significant) to acquirers 5 years following the bid. Mergers exhibit significantly negative abnormal returns of -10% while tender offers show insignificant abnormal returns up to 5 years after the bid.
Gregory (1997)	1955-85	420 UK takeovers with bid values >£10 million	UK	0 to +24 months	Different benchmark methods controlling for firm size, risk and growth opportunities reveal significant abnormal returns from -8.15% to -11.25% over the 24-month post-acquisition period. Between 31% and 37% of firms earn positive abnormal returns.
Loughran and Vijh (1997)	1970-89	434 mergers and tender offers	US	0 to +5 years	Average acquirer losses of -6.5% (insignificant) 5 years after the bid.
Higson and Elliot (1998)	1975-90	1660 acquirers and targets	UK	0 to +3 months	Insignificant gains of -0.74% over +1 to +12 months, -0.14% after 24 months, +0.83% after 36 months (all insignificant).
Sudarsanam and Mahate (2003)	1983-95	519 listed acquirers	UK	+1 to +750 days	Significant abnormal returns of between -8.71 and -21.89% (all significant) based on size and MTB ratio portfolio return adjustment, market return and mean adjustment.
Gregory and McCorrison (2005)	1984-92	197 bids by UK Acquirers on US targets, 97 bids by UK acquirers on EU targets and 39 bids by UK acquirers on targets from countries	US,EU, Non-US/EU	0 to +5 years	Significant abnormal return of -9.36 and -27% over years +3 and +5 respectively in the US. No significant abnormal returns from EU bids, but positive gains from bids other than EU countries or the US.

		other than US or EU			
Conn <i>et al.</i> (2005)	1984-98	131 cross border public targets, 1009 cross border bids on private targets, 2628 bids on domestic private targets	UK	0 to +36 months	Public domestic bidders lose -19.78% on average over 36 months. The BHAR returns are control firm adjusted (matched by size and MTB ratios).
Alexandritis <i>et al.</i> (2006)	1991-98	179 successful public acquiring firms	UK	0 to +36 months	Abnormal loss of between -0.55% to 1.02% (all significant) from the CAPM and Fama and French models. Both based on equally weighted and value weighted portfolios.

Source: Compiled from prior studies

CHAPTER 5: RESEARCH METHODOLOGY

5.1 Introduction

This chapter presents the research methods used in the study. From the short-term perspective, the research measures the announcement effects of OFDI related M&As by Indian corporates. From the long-term perspective, the effects of OFDI related M&As in terms of value creation following the acquisitions are measured. The chapter also outlines the approach taken to explain the variations in outcomes at firm-specific level and presents the approach taken to identify the drivers behind OFDI- related M&As.

The chapter is organised into three parts:

Part A deals with methods used to examine short term performance

Part B deals with methods used to examine long term performance

Part C outlines the approach for theoretical explanations

5.2 Part A: Short Term Methods

This chapter presents the models and approaches used to investigate the market reactions to the announcements of the thirty outward foreign direct investment (OFDI) related mergers and acquisitions (M&As) by Indian corporates.

Research Questions

It is evident from Chapter 4 that the majority of the prior research relates to M&As from mature markets. The study is important because it is the first to assess the success of Indian corporates involved in overseas investments from the short term and long term perspective and across sectors. The study fills the gap in the literature in which it examines the aggregate performance and also looks into firm specific level performance. Besides, the present study is wider in scope and the sample considered for the study includes Indian corporates involved in OFDI related M&As across seven sectors. The study will address the following research question from short term perspective:

- How does the market react to announcements of OFDI related M&As by Indian corporates?

5.2.1 Research Hypothesis

The study uses the event method to test the stock market reactions to OFDI related M&A announcements by Indian corporates with the following hypothesis over the three day event window:

Ho: There are no abnormal returns on the announcement day (0) following the announcement of OFDI related M&As.

5.2.2 Research Method

The research method is categorised into three. First, the study presents the relevance of event studies from the short-term perspective. Second, the study deals with the event window framework and its taxonomy. Third, it deals with the procedures involved in measuring the stock value and test statistics.

5.2.3 About Event Study Methods

Event studies have been used since the early 1930s (Mackinlay, 1997). The event study method is a widely used procedure for assessing the economic impact of new information on equity value. It is a commonly employed research method which is used as an attempt to separate the effect of a particular event on a stock's return for some post-event estimation period. This method is applied to a variety of situations ranging from firm-specific to economy-wide. Some examples include earnings announcements, initial public offerings, share repurchases, mergers, acquisitions, stock splits, and macro-economic variables such as the trade deficit, etc. Bruner (2002) points out that of the four research approaches that are employed to measure M&A profitability (event studies, accounting studies, surveys, and clinical studies) event studies clearly dominate in the literature.

The event study method is based on the assumption that capital markets are efficient for estimating the impact of new information on anticipated future profits of firms. The core assumption of event study methodology is that if information communicated to the market contains any useful and surprising content an

abnormal return will occur. In a capital market with semi-strong efficiency one can assess the impact of the event in question on the market value of the company by calculating the abnormal return, i.e., the difference between the actual post-event return and the return expected in the absence of the event (Mackinlay, 1997).

The procedure involved in conducting an event study is sequenced as follows: Define the event to be tested, define abnormal returns, define the pre-event, event, and post-event observation windows, collect a set of events from an unbiased dataset, measure and test aggregate abnormal performance post-event. However, one needs to be cautious about the assumptions used in the event methods. McWilliams and Siegel (1997) presented a vigorous discussion on this issue. The main points of their concerns are presented below:

- An important assumption of an event study is that markets are efficient. Market efficiency implies that stock prices incorporate all relevant information that is available to market traders and any new information (such as an M&A announcement) will be immediately reflected in the stock price. This assumption is more appropriate for a short event window.
- The second assumption is that the event is totally unanticipated and traders gain information from the announcement only. However, it is possible that an event will have been anticipated or information leaked to the market in advance of a formal announcement. In such situations an event study will be inappropriate.

- The third assumption is based on the claim that a researcher has isolated the effect of an event from the effects of other events. It is assumed that there are no confounding effects from other events¹².
- Finally, in event studies, it is generally assumed that there is no cross-sectional dependence among different events. Brown and Warner (1985) investigated this issue and concluded that there is no substantial impact on the outcome. However, Brown and Warner (1985) maintain adjustment for cross-sectional dependence is not always necessary for reasonable test statistic specification. If the degree of dependence is small, as in studies where event dates are not clustered, ignoring the dependence induces little bias in variance estimates. Furthermore, dependence adjustment can actually be harmful compared to procedures which assume independence.

5.2.4 Event Window Framework and Taxonomy

According to McKinlay (1997), an event study can be roughly categorised into the following five steps:

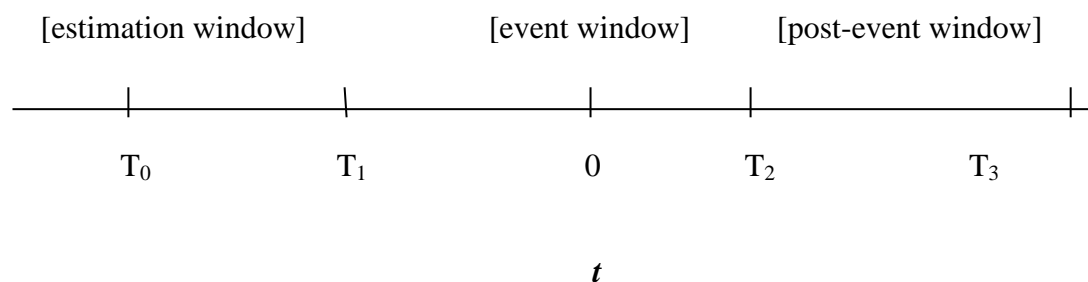
1. Identifying the events of interest and defining the event window size
2. Selection of the sample set of firms to include in the analysis.

¹² Confounding events can include the declaration of dividends, announcement of an impending merger, announcement of a new product, announcement of unexpected earnings, change in key executives, etc.

3. Prediction of a “normal” return during the event window in the absence of the event
4. Calculation of the abnormal return within the event window, where the abnormal return is defined as the difference between the actual and predicted returns.
5. Testing whether the abnormal return is statistically different from zero.

To facilitate the measurement and analysis of the abnormal returns the study defines some notations. Returns will be indexed in the event time using τ . Defining $\tau=0$ as the event day, $\tau=T_1+1$ to $\tau=T_2$ represents the event window, and $\tau=T_0+1$ to $\tau=T_1$ constitutes the estimation window. Let $L_1 = T_1 - T_0$ and $L_2 = T_2 - T_1$ be the length of the estimation window and the event window respectively. It is important to note that in spite of the event being considered on a given date it is typical to set the event window length larger than one (McKinlay, 1997). This makes possible the use of abnormal returns around the event day in the analysis. When appropriate, the post event window will be from $\tau = T_3$ and of length $L_3 = T_3 - T_2$. The timing sequence is illustrated with a time line in Figure 1.

Figure 1: Time line for event studies



It is important that the estimation window and the event window do not overlap. This design provides for the parameters of the normal return model which are not influenced by the returns around the event. Including the event window in the estimation of the normal model parameters could lead to the event returns having a large influence on the normal return measure. In this situation the normal and the abnormal returns would contain the event impact. This would be problematic because the methodology is built around the assumption that the announcement effect is observed through the abnormal returns on the announcement day. The intention of this approach is to increase the robustness of the normal market return measure to gradual changes in its parameters.

McWilliams and Siegal (1997) suggest that the length of the event window is the most crucial research design issue in an event study. In deciding the length of the event window, it is important to understand that the event window should be short enough to increase the power of the test and at the same time it should be long enough to capture the full (considerable) effect of the event under consideration.

5.2.5 Event Study Approaches

In the literature, a variety of models have been proposed, analysed and/or used to measure the expected rate of return and then calculate the abnormal return estimates. Abnormal returns are measured based on any of the following given models:

- Mean-adjusted returns model

- Market-adjusted returns model
- Market model returns

This section analyses and appraises the three models mentioned above.

1) Mean-adjusted returns

This is calculated by subtracting the average return for stock *i* during the estimation period from the stock returns during the event periods. This method does not explicitly control for the risk of the stock or the return on the market portfolio during event periods. This approach is simpler because it estimates only one parameter and market returns are not required.

$$A_{i,t} = R_{i,t} - \bar{R}_i \text{ - - - - (1)}$$

$$\bar{R}_i = \frac{1}{N} \sum_{t=1}^N R_{i,t} \text{ - - - (2)}$$

From the expression given above $A_{i,t}$ can be defined as the excess return for security *i* at day *t*. $R_{i,t}$ is the observed arithmetic return for security *i* at day *t* and \bar{R}_i is the expected average return.

2) Market Adjusted Model (MAR):

Under the market-adjusted return model, the return on market index is subtracted from the return of firm security. This method is simpler than estimating market model abnormal returns because it is done in “one step”, rather than two. When this model is used, no statistical parameters are estimated.

The abnormal return for security i in month t is

$$MAR_{it} = R_{it} - R_{mt} \quad (3)$$

Where R_{it} is the monthly return for security “ i ” in month “ t ” and R_{mt} is the monthly return on the market index.

3) Market Model (MM)

The market model approach is straight-forward and relatively easy to use (Binder, 1998). Parameters are estimated using a pre-event period sample with ordinary least squares regression. The parameter estimates and the event period stock and market index returns are used to calculate the abnormal returns. It involves two steps to estimate the abnormal returns. In the first step parameters are estimated and in the second step abnormal returns are estimated. This method controls for the risk (market factor beta) of the stock and movement of the market during the event period.

The normal expected return using the market model is

$$R_{it} = (\alpha_i + \beta_i R_{mt} + \epsilon_{it}) \quad (4)$$

Where α_i and β are market model parameter estimates obtained by regressing monthly returns for security ‘ i ’ on the equally-weighted market returns over the estimation period.

5.2.6 Measuring AR under OLS Market Model

The market reaction to short run sentiment of acquisition performance is measured by calculating the Abnormal Returns (AR), Cumulative Abnormal

Returns (CAR) and Average Abnormal Returns () and Standardised Cumulative Abnormal Returns (SCAR).

Measuring Abnormal Returns (AR), Cumulative Abnormal Returns (CAR), Average Abnormal Returns and Standardised Cumulative Abnormal Returns (SCAR).

1) Abnormal Returns

According to the market regression model abnormal returns are defined as the returns over the event window minus the normal returns, i. e., the returns that would be expected if the event did not take place (Campbell, Andrew, & Mackinlay, 1997). Intuitively, abnormal returns indicate the market response to the announced event (Anand & Singh, 1997).

$$AR_{i,t} = R_{i,t} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}) \text{ --- (Equation 5)}$$

Under null hypothesis (H_0) the distribution of abnormal returns in the event window is assumed to be normally distributed with zero mean and constant variance, as shown below:

$$AR_{it}(t_1, t_2) \sim N(0, \delta^2(AR_{it})) \text{ --- (Equation 6)}$$

2) Cumulative Abnormal Returns

The daily abnormal returns are summed up over the event window to derive the cumulative abnormal returns (CARs).

$$\text{CAR}_i(t_1, t_2) = \sum_{t=t_1}^{t_2} \text{AR}_{it} \text{ --- (Equation 7)}$$

3) Average Abnormal Returns

Average Abnormal Returns are obtained by averaging the residuals across firms on a day t .

$$\text{AAR}_t = \frac{1}{N_t} + \sum_{i=1}^{N_t} \epsilon_{i,t} \text{ --- (Equation 8)}$$

Where N_t is the number of companies under consideration with a return in event window t . The AAR minimises the impact of other information, except the announcement about the OFDI related M&As, because they are calculated across the sample for the given day.

4) Standardised Abnormal Returns:

The wealth effects following the announcements are also tested by standardising the abnormal returns. That is, through standardising the abnormal returns with the estimated standard deviation. This approach provides robust results since this method assumes that the event-induced increase in the variance is proportional for each firm. Portfolio abnormal returns are standardised in order to produce independent and identically distributed abnormal returns (Paul. Asquith & Kim, 1982).

The procedure is as follows:

AR obtained from (7) above should be divided by its estimated standard deviation to yield a standardised abnormal returns, $A'_{i,t}$.

$$A'_{i,t} = AR_{i,t} / \hat{S}(AR_{i,t}) \quad \text{--- (Equation 9)}$$

Where

$$\hat{S}(AR_{i,t}) = \sqrt{\frac{1}{N} \sum_{i=-105}^{-6} (AR_{i,t} - \overline{AR}_{i,t})^2} \quad \text{--- (Equation 10)}$$

The sum of the standardised abnormal returns (through time-series) is referred to as standardised cumulative abnormal returns (SCAR).

5.2.7 Approaches of the Present Study

The study adopts an event study method and uses a market model involving thirty OFDI related M&As by Indian corporates between 2000 and 2008 from seven sectors ((1) Metals & Mining; (2) Oil, Gas & Energy; (3) Chemical/Fertilisers; (4) Food & Beverages; (5) Information Technology; (6) Healthcare & Pharmaceuticals; and (7) Manufacturing & Processing).

To capture the effect of trade following the announcement, the study extends the interval to pre-event day (-1). (0) event day (announcement day) and post-event day (+1). The study tests the value effects of the OFDI-related M&As firm securities transacted on the Indian Bombay Stock Exchange (BSE) surrounding the event window.

The study follows the method adopted by Scholes (1972) to examine the announcement effect relating to the acquisitions by the OFDI related Indian corporates in the stock market on the event day. The method used by Scholes is an adaptation of the method used by Fama (1969). According to Scholes (1972), a secondary distribution (event distribution) is an infrequent event for any particular company.¹³ Brown and Warner (1985), conclude that a simple methodology based on the market model is both well-specified and relatively powerful under a wide variety of conditions, and in special cases even simpler methods also perform well.

Movements in security prices are associated with market-wide information that differentially affects the value of securities. The market model proposed by Sharpe (1963) and tested by Blume (1968) provides a particularly simple and effective way to do so.¹⁴ The model assumes that individual security returns, $R_{i,t}$ are linearly related to the returns on a market portfolio, $R_{m,t}$, and that the usual assumptions of the regression model are satisfied.¹⁵ ϵ_{it} is assumed to be zero. The market model asserts that

¹³Eugene Fama, Lawrence Fisher, Michael C. Jensen, and Richard Roll, used a similar approach in their study but used the logarithmic or continuously compounded rate of return on securities.

¹⁴ See William F. Sharpe (1963).

¹⁵ Extensive tests of this model by Blume and by Fama et al. indicate that the assumptions of linearity, stationarity, and serial independence of the residuals are not violated. The estimated residuals, however, appear to be more closely

$$R_{it} = (\alpha_i + \beta_i R_{mt} + \epsilon_{it}) \text{ --- (11)}$$

Where,

R_{it} = Returns for firm i for the day t , measured

R_{mt} = Market portfolio return for the day t ,

α_i = It is the constant return on the share price

β_i = Sensitivity of the return on the share i to the variations in the return of the market

ϵ_{it} = Residual or random disturbance

The advantage of the shorter window is that the results will be typically insensitive to the model chosen for the expected returns (Moeller.S, et al., 2003). Following the literature, this study will concentrate only on a short-run event study method, restricting analysis to a short event window (closely surrounding the announcement day). The event date for the study is set to be the date of announcement of a respective M&A event. This provides the best comparison of the various methods because the shorter the event window, the more precise the tests. The three days' event window includes: -1, 0, +1 in which the event window is made up of one day prior to the announcement day, the announcement day and a day following the announcement day.

approximated by a member of the stable class of distributions with a characteristic exponent of less than two.

5.2.8 How is the present study different from the prior studies?

The present study is different from the extant literature in the following given ways: First, it has no problems with missing data and therefore eliminates the need for rebalancing which is prominent among the issues identified in the prior studies. This is because the sample size in this study is small and the firms chosen are listed on the BSE for the entire study period. Hence, the problem of rebalancing is not an issue in contrast to the previous studies of mature markets where the sample size was large and the period of study was vast, extending three to four decades, and where the data was drawn from data bases like CRSP. The length of the estimation period was more than 250 days unlike this present study which is 100 days.

Most of the prior studies choose more than 100 hundred days as an estimation period because of the rebalancing problem. But after making adjustments to ensure continuity in the time series of the data, the number of days is normally reduced closer to 100. The estimation period of the present study is 100 days. In spite of these variations, the estimation period chosen for the present study is in line with the literature.

It is evident from the literature presented in Chapter 4 that though the estimation period is 250 days, 100 days is considered to fit the selection criteria. Hence, the period of the present study is intact with the literature.

5.2.9 Sample and Data

The present study measures the short-run performance of thirty OFDI related M&As by Indian companies. The study considers a three-day short-event window surrounding the acquisition announcement period. It includes a day prior to the announcement and the event day (announcement day) and a day following the announcement. The study will concentrate only on a short-run event study method, restricting analysis to a short event window (closely surrounding the announcement day). The event date for the study is set to be the date of announcement of the respective M&A event. This provides the best comparison of the various methods because the shorter the event window, the more precise the tests.

The coefficients of the market model are estimated using 100 days of stock return data on each security in the sample of thirty OFDI related Indian corporates involved in acquisitions from the BSE Index (Bombay Stock Exchange). The α_i & β_i are the OLS parameter estimates obtained in the regressions for the period five days preceding the event. The method of estimation period is the same as adopted by Scholes (1972), with the exception that the present study does not include post-event data in the estimation period. The estimation period excludes five days prior to the event day. The estimation period of the market model is 100 days.

Returns are calculated as the difference in natural logarithm of two consecutive daily stock prices. It estimates each security's systematic risk relative to the

market portfolio. The Bombay Stock Exchange (BSE) Price Index is used as a proxy for the market portfolio. It controls for market-wide variations through the independent variable R_{mt} . Any variation due to factors not present in the market portfolio will be captured in the disturbance term ϵ_{it} .

The data is obtained from the CMIE data Prowess, corporate documents, and Thompson Banker. The announcement dates are obtained from the daily newspapers. The data used involves firm stock returns and market returns on the Bombay Stock Exchange (BSE). The test results will be processed using STATA, e-views software applications.

5.3 Part B: Long term Methodology

It is evident from part A that the approaches and methods used to estimate abnormal returns from a short-term perspective are quite straight forward meaning there are not many issues relating to the models used. Unlike the short-term studies, the approaches and methods employed in long-term studies to estimate abnormal returns are varied in the extant literature and pose challenges to researchers.

5.3.1 Introduction

It is evident from the prior studies (Chapter 4) that over the last two decades mergers and acquisitions related issues have drawn considerable interest from practitioners and academics. As a result, scores of empirical studies have

documented various aspects of M&As including trends in M&A activity, and characteristics of the transactions and corresponding gains or losses to shareholders. This chapter presents the methods used to examine the long-term performance of OFDI-related Indian corporates following merger and acquisition activity.

While a majority of the existing empirical evidence focuses on stock returns immediately surrounding announcement dates, a smaller body of research has examined long-run post-acquisition returns (Martynova & Renneboog, 2008).

According to Malkiel (2003) the stock market in the short run is a voting mechanism, while in the long run it is a weighing mechanism. True value will win out in the end. And before the fact, there is no way in which investors can reliably exploit any anomalies or patterns that might exist. He is sceptical about the predictable patterns that have been documented in the literature were ever sufficiently robust so as to have created profitable investment opportunities and after they have been discovered and publicized, they will certainly not allow investors to earn excess returns.

The majority of the long-horizon studies examined US data and concluded that acquiring firms experience significant negative abnormal returns over a one- to three-year period after the merger (Agrawal, et al., 1992); & (Moeller.S, et al., 2003). It was pointed out by Fama (1998) and Mitchell and Stafford (2000) that many empirical studies employ different methodological choices (event-time vs.

calendar-time approach) and that various factors (such as payment methods, merger, or tender offer) may affect the conclusions of these papers.

Besides, it is evident from the extant literature from the Indian context that the majority of studies examined the trends and patterns of foreign direct investments involving cross-border mergers and acquisitions. There are few studies that have examined the post-acquisition performance of Indian firms in which they examined domestic acquisitions only. The present study will fill the gaps of the prevailing Indian literature and examine the post-acquisition long-term performance of the OFDI related Indian acquiring firms. It examines the shareholders wealth effects as a consequence of thirty OFDI related M&As by Indian corporates. The study raises the following research question based on the review of literature presented in Chapter 4:

- Is there any value creation to the shareholders in the post-acquisition period following OFDI related M&A activity?

5.3.2 Hypotheses of the Study:

The study proposes to test the following two null hypotheses relating to the long-term performance of OFDI related M&As by Indian corporates:

- 1) H_0 : There are no long-run abnormal returns to the acquiring firms following acquisition activity.

- This hypothesis is tested by considering the stock market performance in the post-acquisition period.
- 2) Ho: Financial performance in the post-acquisition period is no greater than the financial performance in the pre-acquisition period.
- This hypothesis is tested by considering the Tobin's Q in the pre- and post-event period.

5.3.3 Approaches and methods for estimating abnormal returns in the long-term studies

There are two approaches identified in the literature for estimating long-run performance. They are: (a) event-time approach and (b) calendar time approach.

In the event approach, the methods used to estimate the long-term abnormal stock returns can be categorised as: (i) Cumulative Abnormal Returns (CAR) and Buy-and-Hold Abnormal Returns (BHAR). CAR can be estimated by employing four models. They are market-adjusted model, market model, mean model and capital-adjusted-pricing-model. Like CAR, BHAR is calculated in two ways: by using (i) a reference portfolio return, and control firm return.

The calendar-time portfolio approach was first used by Jaffe (1974) and Mandelker (1974) and is advocated by Eugene (1998). Further, there are three calendar-time portfolio methods that are evident in the literature. They include the Fama and French (1993) three factor model, the Mitchell and Stafford (2000) adjusted intercept approach, and the Fama French four factor model.

The models used to estimate the long horizon abnormal returns are presented below:

1) Market Adjusted Model (MAR)

The abnormal return for security i in month t is

$$MAR_{it} = R_{it} - R_{mt} \quad \text{--- (1)}$$

Where R_{it} is the monthly return for security “ i ” in month “ t ” and R_{mt} is the monthly return on the market index.

2) Market Model (MM)

The abnormal return using the market model is

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad \text{--- (2)}$$

Where α_i and β are market model parameter estimates obtained by regressing monthly returns for security ‘ I ’ on the equally-weighted market returns over the estimation period.

3) Cumulative Abnormal Returns

The monthly abnormal returns are summed up over the event period to derive the cumulative abnormal returns (CARs).

$$CAR_{it} = \sum_{t=1}^t AR_{it} \quad \text{--- (3)}$$

4) Capital Asset Pricing Model (CAPM)

$$AR_{it} = R_{it} - R_{ft} - \beta_i [R_{mt} - R_{ft}] \quad \text{--- (4)}$$

Where β is from CAPM regression model (i.e. slope from a regression of $(R_{it} - R_{ft})$ on $(R_{mt} - R_{ft})$ for the estimation period and R_{ft} is normally 91 days Treasury bill used as a proxy for the risk-free return.

5) Fama French Three Factor Model

Fama-French (1992) (1993) provided evidence that the extensively documented inadequacies of the CAPM model in describing the cross-section of expected return are remedied by an expanded form of the CAPM that includes size and book-to-market factors. Some recent event studies adjust for both these factors.

$$AR_{it} = R_{it} - R_{ft} - \beta_{i1}[R_{mt} - R_{ft}] - \beta_{i2}HML_t - \beta_{i3}SMB_t - \dots \quad (5)$$

Where β_{i1} , β_{i2} and β_{i3} are the OLS coefficients estimated by regressing “I’s” monthly excess returns on the monthly market excess returns, book-to-market, and size factor returns for the estimation period. HML_t and SMB_t are the Fama-French book-to-market and size factor returns. HML_t is the high-minus-low book-to-market portfolio return in month “t” and SMB_t is the small-minus-big size portfolio return in month “t”.

Factor Portfolios:

The Fama and French model uses three explanatory variables for explaining the cross section of stock returns. The first is the excess market return factor - that is the market index return minus the risk-free return. The second is the risk factor in returns relating to size small minus big (SMB). The simple average of the monthly

returns of the three big size portfolios (B/L, B/M, B/H) is subtracted from the average of the three small size portfolios (S/L, S/M, S/H) to get the monthly return of the SMB factor¹⁶. This factor is free from BE/ME effects as it has about the same weighted-average BE/ME. The third factor is related to value - high minus low (HML). Each month, the difference between the simple average of the returns on the two high BE/ME portfolios (S/H and B/H) and the two low BE/ME portfolios (S/L and B/L) is calculated¹⁷. It is free of size effects.

6) Buy-and-Hold Abnormal Return (BHAR)

This approach has become increasingly popular since the end of the 1990s. Barber and Lyon (1997) and Lyon, Barber, and Tsai (1999) propose the use of buy-and-hold abnormal returns. They argue that this method captures investor experience accurately. In contrast to the CAR method, the buy-and-hold return (BHAR) has been defined as the return on buy-and-hold investment in the sample firm less the return on a buy-and-hold investment in an asset/portfolio with an appropriate expected return, or:

$$\text{BHAR}_{it} = \prod_{t=0}^T [1 + R_{it}] - \prod_{t=0}^T [1 + R_{mt}] \quad \text{--- (6)}$$

¹⁶ $(S/L+S/M+S/H)/3 - (B/L+B/M+B/H)/3$

¹⁷ $(S/H+B/H)/2 - (S/L+B/L)/2$

To test the null hypotheses that the mean cumulative abnormal returns are equal to “0” for a sample of “N”, the common parametric test statistics used is:

$$t_{\text{BHAR}} = \overline{\text{BHAR}}_{it} / (\delta(\text{BHAR}_{it}) / \sqrt{N}) \quad \text{--- (7)}$$

Where $\overline{\text{BHAR}}_{it}$ is the sample average and $\delta(\text{BHAR}_{it})$ is the cross-sectional sample standard deviations of abnormal returns for the sample of ‘N’ firms¹⁸.

Like CAR, the expected returns $E(R_{it})$ for BHAR (equation 5) is calculated in two ways: by using (i) a reference portfolio return, and (Davidson, et al.) control firm return.

7) Reference Firm Approach

Under this approach, all the firms listed on a stock exchange are categorised into a number of groups (generally 25 to 50) based on each firm’s respective “size” and “book-to-market value information”. Each of these groups serves as a reference portfolio and BHAR is calculated by taking the difference between the buy-and-hold return of a sample firm and the buy-and-hold return of the closest reference portfolio in terms of “size” and “book-to-market value” information. As reported by Barber and Lyon (1997), BHAR with a reference portfolio is subject to a new listing bias and a rebalancing bias.

8) Control Firm Approach

¹⁸ In the case of a value-weighted BHAR, the market-value-weighted average BHAR and corresponding standard deviation in the t-statistics.

As an alternative to the use of reference portfolios for the calculation of abnormal returns, a control firm return is used in the BHAR calculation. In this approach, sample firms are matched to a control firm on the basis of specified firm characteristics. Three methods are identified in the literature. They include matching a sample firm to a control firm closest in size (as measured by market value of equity), matching a sample firm to a control firm of similar size and book-to-market ratio, and matching a sample firm to a control firm of similar book-to-market ratio.

Barber and Lyon (1997) show evidence about the efficacy of a control firm approach for detecting long-run abnormal stock returns. They document that matching sample firms to control firms of similar size and book-to-market ratios yields test statistics that are well specified in all sampling situations they considered.

As per Barber and Lyon (1997), the control firm approach eliminates the new listing bias (since both the sample and control firm must be listed in the identified event month), the rebalancing bias (since both the sample and control firm returns are calculated without rebalancing), and the skewness problem (since the sample and the control firms are equally likely to experience large positive returns). Finally, the cross-sectional dependence problem in the test statistics can be alleviated by the methodology provided by Mitchell & Stafford (2000).

9) Wealth Relative Method

Ritter (1991) proposed the wealth relative model as an alternative to the cumulative abnormal returns method. This method implicitly assumes monthly portfolio rebalancing and computes a three-year holding period return as, below:

$$R_i = \prod_{t=1}^{36} (1 + r_{it}) - - - (8)$$

Where r_{it} is the return on firm i in event month t . This measures the total return from a buy-and-hold strategy where a stock is purchased at the first closing market price after going public and held until the earlier of its three years. Wealth relative (WR) is a performance measure and is defined as follows:

$$WR = \frac{1 + \text{average 3 year total return of the firm}}{1 + \text{average 3 year total return on Benchmark firm}}$$

A wealth relative of greater than 1 is interpreted as firm's security outperforming the benchmarking firm; a wealth relative of less than 1 indicates that the sample firm underperformed.

10) Tobin's Q - A measure to assess the operating performance

Tobin's is a measure of performance. It is the ratio of the market value of a firm's assets (as measured by the market value of its outstanding stock and debt) to the replacement cost of the firm's assets (Tobin 1969). If a firm is worth more than its value based on what it would cost to rebuild it, then excess profits are being earned. These profits are above and beyond the level that is necessary to keep the firm in the industry.

The advantage of using Tobin's q is that the difficult problem of estimating either rates of return or marginal costs is avoided. On the other hand, for Tobin's q to be meaningful, one needs accurate measures of both the market value and replacement cost of a firm's assets. Market capitalisation is the market value of a company's issued shares. It is calculated by multiplying a company's issued shares by the current share price.

It is usually possible to get an accurate estimate for the market value of a firm's assets by summing the values of the securities that a firm has issued, such as stocks and bonds. It is much more difficult to obtain an estimate of the replacement costs of its assets, unless financial reports use current value. Moreover, expenditures on advertising and research and development create intangible assets but these tend not to be capitalised in balance sheets.

5.3.4 Issues relating to the methods used in estimating abnormal returns in the long-period studies

It is evident from the extant literature that the question of which model is appropriate to assess the expected returns remains an unresolved issue. Fama (1998) concludes that all models for expected returns are incomplete descriptions of the systematic patterns in average returns which can lead to spurious indications of abnormal performance in an event study. Issues relating to the methods used to assess the long-term performance are presented below:

1) Market Adjusted Model

Issues: This model is intuitive and relatively easy to use. However, as Barber and Lyon (1997) have pointed out, it suffers from three types of biases. First, the new listing bias arises because in event studies of long-run abnormal returns, sampled firms generally have a long post-event history of returns, while firms that constitute the index (or reference portfolio) typically include new firms that begin trading subsequent to the event month. Second, the rebalancing bias arises because the compound returns of a reference portfolio, such as an equally weighted market index, are typically calculated assuming periodic (generally monthly) rebalancing, while the returns of sample firms are compounded without rebalancing. Third, the skewness bias arises because long-run abnormal returns are positively skewed. Moreover, this model does not consider the “size” and the “book value to market value” factors while determining the abnormal returns.

2) **Market Model**

Issues: Since this model uses the market index return, this would also suffer from new listing bias and rebalancing bias as discussed above. Another issue is that this model uses the pre-bid period for the identification of α_i and β_i parameters, whereas the characteristics of bidders' security may change as a result of the bid. Post outcome returns would reflect these changes and bias the results (Limmack, 1991).

3) **Capital Asset Pricing Model (CAPM)**

Issues: Issues mentioned for the market model are again applicable for CAPM. Moreover, this model assumes the stationarity of the risk-free rate (Loderer & Martin, 1992). The risk free rate could be driven up if the acquisition intensity increases in a period of time and alternatively, it could decline if the acquisition activity subsides. In addition, the CAPM model has the “joint hypothesis” problem, i.e., it assumes that the CAPM truly represents the expected return of the security (Dutta, 2006).

4) Fama French Three factor Model

Issues: Ikenberry, Lakonishok and Vermaelen (1995) made two observations against this approach. First, returns are rebalanced monthly, thus the abnormal performance measured under this approach is less representative of a realistic investment strategy. Second, this procedure assumes that the coefficients are stable over time, which implies that the characteristics of the portfolios are not changing.

Barber and Lyon (1997) identified two disadvantages of the three-factor model. They are: First, given four parameters in the regression, it requires at least five observations of monthly returns post-event. This creates a survivor bias among remaining sample firm.¹⁹ The second, observation is similar to Ikenberry,

¹⁹ It is not clear, ex ante, what effect this survivor bias has on tests for long-run abnormal returns. The direction of the bias depends on the returns of firms in the months immediately prior to delisting. In the case of a merger, acquisition, or private transaction, these returns are likely positive, while in the case of a bankruptcy or liquidation these returns are likely negative.

Lakonishok and Vermaelen (1995) and further explains that in contrast to the size/book-to-market portfolios, in which a firm's portfolio assignment is allowed to change once per year, the regression approach assumes that a firm's market, size, and book-to-market characteristics are stable over time.²⁰

5) Buy-and-Hold-Abnormal Return (BHAR): Reference Firm Approach

The BHAR approach and the characteristic-based matching approach (BHAR) have been in use widely following the works of Ikenberry et al. (1995), and Barber and Lyon (1997), Lyon et al. (1999). Mitchell and Stafford (2000) termed BHAR returns as the average multiyear return from a strategy of investing in all firms that complete an event and selling at the end of a pre-specified holding period versus a comparable strategy using otherwise similar non-event firms. An appealing feature for using BHAR is that buy-and-hold-returns better resemble investors' actual investment experience than periodic (monthly) rebalancing entailed in other approaches to measuring risk-adjusted performance.²¹ The joint-test problem remains in that any inference on the basis of BHAR hinges on the validity of the assumption that event firms differ from the otherwise similar non-

²⁰ Barber and Lyon, considered an alternative application of the FF three factor model, which is analogous to a traditional market model approach. Post-event abnormal returns can be calculated using a sample firm's realised return less an expected return eg.,reference and control methods.

²¹ Apart from similarity with the actual investment experience, the BHAR approach also avoids biases arising from security microstructure issues when portfolio performance is measured with frequent rebalancing (see Blume and Stambaugh, 1983, Roll, 1983, and Ball, Kothari, and Shanken, 1995).

event firms only in that they experience the event. The researcher implicitly assumes an expected return model in which the matched characteristics (e.g., size and book-to-market) perfectly proxy for the expected return on a security. Since corporate events themselves are unlikely to be random occurrences, i.e., they are unlikely to be exogenous with respect to past performance and expected returns, there is a danger that the event and non-event samples differ systematically in their expected returns notwithstanding the matching on certain firm characteristics. This makes matching on (unobservable) expected returns more difficult, especially in the case of event firms experiencing extreme prior performance.

Issues: Barber and Lyon (1997) present two insights. First, it is problematic to calculate the abnormal returns using reference portfolios, such as an equally weighted market index or size decile portfolios. The abnormal returns calculated using reference portfolios yield test statistics that are mis-specified (empirical rejection rates exceed theoretical rejection rates).

The three reasons identified for the observed biases include:

- 1) New listing bias, which arises because in event studies of long-run abnormal returns, sampled firms generally have a long post-event history of returns, while firms that constitute the index (or reference portfolio) typically include new firms that begin trading subsequent to the event month;

- 2) Rebalancing bias, which arises because the compound returns of a reference portfolio, such as an equally weighted market index, are typically calculated assuming (generally monthly) rebalancing, while the returns of sample firms are compounded without rebalancing; and
- 3) Skewness bias, which arises because long-run abnormal returns are positively skewed.

5.3.5 Rationale behind choosing models for the study

The present study measures the long-run performance of 30 OFDI related M&As by Indian companies. The study considers a maximum 36 months following the acquisition event month. The period of the study signifies acquisition activity and covers selected Indian firms involved in OFDI-related M&As during 2000-2008.

The present study pursues two different approaches to test the null hypothesis and assess the long-term performance of the OFDI-related M&A firms. The method chosen is in line with the studies conducted and documented in the literature (Ikenberry, et al., 1995), (Kothari & Warner, 1997a), (Lyon, et al., 1999) and (Zhu & Malhotra, 2008). The first is one of the most commonly used techniques in the literature. i.e., CAR using the market model (see equation 2 above). The market returns of the Bombay Stock Exchange (BSE) Index and the monthly returns of the firm on BSE are used.

The coefficients of the market model are estimated using 24 months prior to acquisition event month. The monthly stock return data for each security in the

sample of 30 OFDI-related M&As by Indian corporates and the monthly market returns from the BSE Index (Bombay Stock Exchange) are used to estimate the expected returns. The α_i & β_i are the OLS parameter estimates obtained by regressing the firm returns with the market returns (BSE Index). The alpha (intercept) and beta (slope) are estimated from this regression. The expected return is equal to alpha plus beta, times the return on the market index. The excess return for a stock is equal to the stock's actual return less its expected return.

Returns are calculated as the difference in natural logarithm of two consecutive monthly stock prices. It estimates each security's systematic risk relative to the market portfolio. The Bombay Stock Exchange (BSE) Price Index is used as a proxy for the market portfolio. It controls for market-wide variations through the independent variable R_{mt} . Any variation due to factors not present in the market portfolio will be captured in the disturbance term ϵ_{it} . The event period is 36 months following the acquisition month. The excess of firm returns over the estimated returns are abnormal returns.

The second approach calculates long-run abnormal returns considering the buy-and-hold (BHAR) strategy. Under BHAR, the study uses a control firm approach to avoid the issues relating to new listing bias, rebalancing bias and skewness bias. Following the control firm approach, the study matches the OFDI related Indian company's abnormal market return with the control firm that is chosen from the BSE Index based on a set criteria. To be considered, the control firm should be of the same size, belong to the same sector and should not be involved

in acquisition activity. The selection criteria is in line with Barber and Lyon (1997) who document that matching sample firms to control firms of similar size yields test statistics that are well specified in all sampling situations. Further, the study uses the performance suggested by Ritter (1991) i.e., wealth relative method. The wealth relative model also uses the control firm (which is used under the BHAR method) as benchmarking firm.

The study tests the second hypothesis by assessing the operating performance of the sample firms. The study uses ex-ante and ex-post approach and employs Tobin's Q and considers three years' pre-event and three years' post-event in line with prior studies (Zhu & Malhotra, 2008). The significance of the mean changes in the two periods is tested by using t-test. The study also employs the wealth relative method proposed by Ritter (1991) to explain the performance of the firms.

The data for the study is collected from the Centre for Monitoring Indian Economy (CMIE) database, Thompson Banker, BSE portal and Factiva. The data is processed using stata and e-views software application to obtain the test results.

5.3.6 Tests used in the study

The long run performance of the OFDI-related Indian corporates involved in acquisition activity is assessed using two methods. They are BHAR and CAR. The present study uses parametric tests and non-parametric tests to decide whether or not to reject null hypotheses. This is in line with prior studies (S P Kothari & Warner, 1997b) (Ikenberry, et al., 1995) which recommended

consideration of nonparametric procedures as they have been used in few studies and seem likely to reduce misspecifications. Zhu and Malhotra (2008) used parametric tests and non-parametric tests (such as Wilcoxon ranked sign test and sign test) to check the robustness of the findings of the abnormal returns on Indian international acquisition of US firms. Under a parametric approach the study uses the test statistic of t-test, and Anova F-test. The t-value, p-value and f-value are used to decide whether or not the null hypotheses should be rejected in the hypotheses test.

The t-test assesses whether the means of two groups are *statistically* different from each other. This analysis is appropriate whenever the means of two groups are compared. Under the BHAR approach, the t-test is used to assess the significance in the relationship between the firms' returns of the OFDI-related Indian corporates involved in acquisition activity with the matching firm. In the CAR approach, the risk adjusted firm returns are compared with the benchmark returns (BSE Index). In the case of Tobin's Q, the three years' mean of before acquisition and the three years' mean of Tobin's Q after acquisition event are compared and tested.

The critical value(s) for a hypothesis test is a threshold where the values of the test statistic are compared to decide whether or not the null hypotheses should be accepted or rejected. In the present study the mean cumulative abnormal market returns of the OFDI-related Indian corporates involved in acquisition activity are

compared with the critical values to determine whether or not the null hypothesis is rejected. The level of significance at which the test is carried out is at 1%, 5% and 10%.

The F-test commonly used in one-way ANOVA is based on the assumption that all of the groups share a common, but unknown, standard deviation (σ). In practice, this assumption rarely holds true, which leads to problems controlling the Type I error rate. Type I error is the probability of incorrectly rejecting the null hypothesis (concluding the samples are significantly different when they are not). To have robustness in testing the null hypotheses the present study considers the Anova F-test.

The p-value is compared with the actual significance level of test results and, if it is smaller, the result is significant. That is, if the null hypothesis were to be rejected at the 5% significance level, this will be reported as " $p < 0.05$ ".

Small p-values suggest that the null hypothesis is unlikely to be true. The smaller it is, the more convincing the rejection of the null hypothesis. It indicates the strength of evidence for say, rejecting the null hypothesis H_0 , rather than simply concluding "Reject H_0 " or "Do not reject H_0 ".

The Wilcoxon Mann-Whitney test is one of the most powerful nonparametric tests for comparing two populations. It is used to test whether two independent samples of observations are drawn from the same or identical distributions. An advantage

with this test is that the two samples under consideration may not necessarily have the same number of observations.

5.3.7 Tests for assessing the performance of Indian corporates involved in the OFDI related M&As in the pre-acquisition and post-acquisition period

For the purpose of academic analysis the study examines the relationship between OFDI's by Indian corporates with the size and performance drivers during the period 2000 – 2008 (they include: the total assets (size), sales, PAT, PBDIT and Dividends). For this purpose a correlation matrix is used. In statistics correlation, (often measured as a correlation co-efficient), indicates the strength and direction of a linear relationship between two random variables. In general statistical usage, *correlation* refers to the departure of two variables from independence. The correlation is 1 in the case of an increasing linear relationship, -1 in the case of a decreasing linear relationship, and some value in between in all other cases, indicating the degree of linear dependence between the variables. The closer the coefficient is to either -1 or 1, the stronger the correlation between the variables.

If the variables are independent then the correlation is 0, but the converse is not true because the correlation coefficient detects only linear dependencies between two variables.

The study also looks into the annual percentage growth rate of change in sales, dividends and profit after taxes in the pre- and post-acquisition periods and

compares the change in annual growth rate between the pre- and post-acquisition periods. For this purpose it uses the following equation: percentage change = $[(\text{latest-past})/\text{past} * 100]/N$, where N represents the number of years between the two values i.e. latest and past periods.

While calculating the change in growth rate in the pre-acquisition period the period considered is four years prior to the acquisition event year. The earlier period in pre-acquisition period is denoted as past; the later period of the pre-acquisition period is denoted as latest. Like-wise the period considered while calculating the change in growth rate in the post-acquisition period is also four years following the acquisition event year. The earlier period of post-acquisition period is denoted as past; the period closer to of the post-acquisition period is denoted as latest. The change in growth rate is examined to look into the changes in performance drivers after the OFDI related M&A's by the Indian corporates.

5.4 Part C: Research methods for explaining the empirical results

For the purpose of giving explanations to differences in outcome of empirical findings a firm-specific approach is adopted. The study presents the approach for describing the variations in outcomes of the empirical findings at firm-specific level. The study considers discussion of the empirical findings significant for the following reasons:

- Theoretical discussion helps to understand the differing outcomes in empirical findings. For a reasonable discussion the firm-level specific empirical findings are linked to the following: (1) the secondary information released at the time of OFDI related M&A announcements by Indian corporates, (2) related theories like value maximising theory, OLI and resource based theories as presented in Chapter 3 and (3) prior findings as presented in Chapter 4. This approach helps to explain the underlying facts of certain elements in the empirical results.
- Theoretical explanations to the differing outcomes will provide a base for testable propositions for future empirical researchers.

The study selects five companies for explaining the variations in outcomes. The selection criteria include: the companies should have a minimum of three decades of history in the domestic market; the companies should have at least one unique feature from the rest of the sample: in terms of bid amount, sector they represent, identified driver, outcome/end result from short term and long-term perspective. Long experience in the domestic market is considered vital, more from a long-term perspective than from short-term. As such, there are possibilities that the stock market results may vary in the short term and long term and they may give scope for a better discussion. Therefore, the study considers the Indian corporates chosen based on the above criteria as appropriate to describe them to understand the competitive advantages of Indian corporates in the domestic market.

To further understand the firms, the study identifies the drivers behind OFDI by obtaining information relating to the OFDI related M&As by Indian corporates. Obtaining the required data is a challenging issue. In fact, the Reserve Bank of India, which is the primary source of data on foreign direct investment, does not show the specific details of the OFDI related M&As in India. The other sources for obtaining data include the Federation of Indian Chamber of Commerce and Industry (FICCI) and Centre for Monitoring the Indian Economy (CMIE) which has the listing of OFDI related M&As' information. Other alternative sources include media reports relating to firm-specific official corporate press release statements, information on the internet, company annual reports, business periodicals, previous empirical evidence and daily newspapers.

Towards the end, the study undertakes comparative analyses of the performance of the OFDI related Indian corporates involved in acquisition with the reported empirical findings in the literature relating to mature markets.

5.5 Conclusions

To examine the effects of OFDI related acquisition announcements of Indian corporates on the short-run stock performance, this chapter presented the theoretical framework and approaches relating to the event study methods. The chapter presented different approaches and methods for estimating the abnormal returns in the long run. It also outlined the approach for explaining the differing outcomes of empirical findings at firm-specific level. It is evident from the above

discussion that the methods and models used are diverse. The results are influenced by the methods chosen which pose challenges to the researcher for choosing a particular approach and method. The method chosen to test the hypotheses is in line with the prior literature and relates specifically to the study conducted from an Indian context. The research results obtained by using these methods (from short-term and long-term perspectives) are presented and analysed in Chapter 6 and used in Chapter 7.

It will be interesting to examine whether or not the Indian corporates deliver and create value for the firms and shareholders through the changes in strategic investment approaches.

CHAPTER 6: EMPIRICAL INVESTIGATION OF SHORT TERM AND LONG TERM PERFORMANCE

6.1 Introduction

From a short-term perspective, this chapter presents the empirical findings of the stock market reactions in terms of returns following the announcements of OFDI-related M&As by Indian corporates. It examines if the stock market in any way reacts differently to the announcements of thirty OFDI related M&As by Indian corporates.

From a long-term perspective, this chapter presents the empirical findings relating to the stock market performance of the Indian corporates involved in OFDI-related M&As in the post-acquisition period. The key issue examined in this chapter is whether the thirty OFDI related M&As by Indian corporates deliver value to their shareholders in the post-acquisition period.

The details of the sample size, models and approaches used in this chapter were explained in the previous chapter.

This chapter is organised into two parts:

Part A deals with short-term performance and

Part B deals with long-term performance

6.2 Part A: Short Term Performance

The empirical findings of the study from a short-term perspective are presented below:

6.2.1 Stock market reactions following announcement of thirty OFDI related M&As by Indian Corporates

The results obtained through the OLS market model are presented in Table 6.1. The average abnormal returns, Cumulative Abnormal Returns (CAR) and Standardised Cumulative Abnormal Returns (SCAR) returns throughout the event window, along with the results relating to tests of significance of the Indian corporates involved in OFDI related M&As, are presented. The abnormal returns are positive throughout the event window (-1, 0, +1). The AAR is statistically significant at 1% level on the day prior to announcement; it is statistically significant at 5% level on the announcement day, statistically significant at 10% level on the post announcement day. The 1% significant AAR before the announcement day could be due to the media hype closer to the announcements of the OFDI related M&As by the Indian corporates. The market corrects in the post-event day. The AAR results support the rejection of the null hypothesis at 5% level of significance on the announcement day

The CAR and SCAR over the event window (-1, 0, +1) are statistically significant at 1% level. The results support the rejection of the null hypothesis at 1% level of significance. The empirical results are providing evidence of value addition to the

stockholders of the bidding firms following the announcements of OFDI-related M&As by the Indian corporates. The results indicate that the stockholders remained positive to the announcements relating to OFDI-related M&As by Indian corporates.

It is evident from Table 6.1 that OFDI-related M&A announcements have a positive effect in the stock market. This implies the market’s initial confidence in the management’s decision in general.

Table 6-1: Average Abnormal Returns and Cumulative Abnormal Returns

Event Window	Mean	p-value
Pre-Event Day-AAR	0.0102	0.03*
Event Day-AAR	0.0229	0.05**
Post-Event Day-AAR	0.0113	0.06***
Event Window (-1,0,+1)		
CAR	0.0147	0.01*
SCAR	0.6982	0.01*

Note: * 1% Significant level; ** 5% Significant level and *** 10% Significant level

Table 6.2 presents the results of firm-wise abnormal returns (AR) to the shareholders on the announcement day of thirty OFDI related M&As by Indian corporates. It is evident from the table that out the total 30 OFDI-related M&As

by Indian corporates, 19 M&A transactions show positive AR and 11 M&A transactions show negative AR.

Table 6-2: Firm-wise abnormal returns (AR) on the event announcement day

S.No	Companies	AR	Result
1	Tata Steel	-0.1017	N
2	DRL	0.0861	P
3	Ranbaxy	0.0297	P
4	Hindalco	-0.1281	N
5	Ispat	-0.0175	N
6	Tata Tea	-0.0289	N
7	Wipro	0.0228	P
8	Matrix	-0.0017	N
9	Ballarpur	0.0251	P
10	Optic	0.0138	P
11	United Spirits	0.0869	P
12	ONGC	-0.0042	N

13	HPCL	-0.0251	N
14	Piramal Nicholas	0.1118	P
15	United Phosphorous	0.0208	P
16	Tata Coffee	0.2091	P
17	M&M	0.0086	P
18	Sun Pharmaceuticals	0.0337	P
19	ONGC	-0.0135	N
20	Videocon	-0.0051	N
21	Lupin	0.0789	P
22	Sasken Communications	0.0944	P
23	VSNL	0.0205	P
24	Tata Motors	0.0265	P
25	Wochardt	-0.0091	N
26	M&M	-0.0009	N
27	Tata steel	0.0210	P
28	Tata Motors	0.0168	P

29	TCS	0.0789	P
30	Tata Chemicals	0.0379	P

Although the empirical results show positive stock market reactions in the short run following the announcements of OFDI related M&As by the Indian corporates, there are few companies that showed negative abnormal returns. Hence, there are differing outcomes in the short term at firm-specific level.

6.2.2 Pre-Acquisition performance

To understand the stock market behaviour following the announcements by Indian corporates about the OFDI related M&As, the study examines the pre-acquisition performance of the Indian corporates involved in OFDI-related M&As.

Details of the changes in the sales, dividends, Profit after Tax (PAT) and total assets in the pre-acquisition period are given below in Table 6.3.

Table 6-3: Paired t-test results showing changes in Sales, Dividends, PAT & Total Assets in the pre-acquisition period

Variables	Mean (Beg -End)	SD (Beg -End)	t-values	P-values
------------------	----------------------------	--------------------------	-----------------	-----------------

Sales	4853	5859	4.53	0.000
Dividends	348	666	2.71	0.005
PAT	900	1232	3.93	0.00
Total Assets	2882	3175	4.97	0.00

Table 6.3 presents the change in Sales, Dividends, PAT & Total Assets for four years before acquisition. It is evident from Table 6.3 that the changes observed in early and later periods of pre-acquisition financial performance is statistically significant with respect to all four variables used i.e., the sales, dividends, profit after tax and total assets. The results indicate a progress in the performance of the Indian corporates involved in OFDI- related M&As in the domestic market prior to overseas acquisitions.

6.2.3 Describing the Short Term Empirical Results

It is evident from the empirical results that stockholders are positive to news of OFDI related M&As announcements by Indian corporates. The positive short run results indicate expectations vested by stockholders for the long run period. According to the finance theory, the established maxim is that the motive behind any business organisation with a commercial objective is wealth maximization. This objective is attained when the investment decisions made in the firm earn a return higher than the costs and adds value to investments. In other words, good

investment decisions will add value and bad investment decisions will decrease the value of stock. It also indicates that the investors in the stock markets are satisfied as long as they earn a reasonable return on their investments. The stock markets will react positively if they are convinced of the rationale behind the investment decisions.

The overall understanding is that the Indian corporates have been performing well in the pre-acquisition period. It is evident from Table 6.3 that the growth in sales, PAT, dividends and total assets when compared four years prior to acquisition with the period closer to acquisition is significant at 1% level. The increase in sales indicates the growth in the market share operations of the Indian corporates in the domestic market; the increase in the profits after tax indicates the efficiency of the Indian corporates in organising resources and generating profits, and the increase in the total assets indicate the growth of the corporate size. The increase in dividends indicates that the Indian corporates are generating returns for their shareholders and hence those shareholders are likely to be positive about the performance and the managerial decision making of the Indian corporates. The performance of the firms in the domestic market might have also driven the stock prices. This is in line with the prior finding of Mauldin, (2003).

6.3 Part B: Long Term Performance

6.3.1 Introduction

This part of the chapter presents and analyses the results of long term performance of the OFDI-related Indian corporates following acquisition activity. The positive short-run market return performance is considered as an indication of the expectations and confidence vested by the shareholders in the company management. The study therefore examines whether the expectations of investors, as pronounced through the significant positive short-run market returns, are attained in the long term.

This chapter assesses the performance of thirty OFDI related M&As by Indian corporates in the post-acquisition period. For this purpose, the period considered is 36 months following acquisition. The study evaluates the long-run post-acquisition performance on the stock market by testing the following null hypotheses:

- 1) Ho: There are no abnormal returns to the acquiring firms following the acquisition activity in the long run
- 2) Ho: Financial performance in the post-acquisition period is no greater than the financial performance in the pre-acquisition period.

6.3.2 Findings of the study

The findings of the study are presented below:

6.3.3 Results of Parametric and Non-Parametric Tests

Table 6.4 presents parametric test results of the 30 OFDI related M&As by Indian corporates involved in acquisition events. The set of results presented includes: (1) BHAR using matching firm model, (2) CAR-Market Model and (3) Tobin's Q. The table summarises two test results - t-test and Anova F-test. It also presents the t-value, P-values and F-values to test the null hypotheses.

Table 6-4: Parametric Tests

Method	t-test		Anova F-test	
	t-value	P-value	F-value	P-value
BHAR – Matching Firm	5.38	0.000	27..21	0.000
CAR-Market Model	2.22	0.03	4.90	0.03
Tobin's Q	1.74	0.08	3.05	0.08

It is evident from Table 6.4 that the observed BHAR t-value is significant at 1% level of significance. The probability of committing a Type I error when the t-value is 5.38 is 0.000. The Anova F-value BHAR results are significant at 1% level. The probability of committing a Type I error when the F-value is 27.21 is 0.000. It is also evident from Table 6.4 that the observed CAR t-value is higher

than the critical t-value at 5% level of significance. Likewise, the F-value CAR results are significant at 5% level.

It is also evident from the table that the observed Tobin's Q t-value is higher than the critical t-value at 10% level of significance. In other words, the probability of committing a Type I error when the t-value is 1.74 is 0.08. Likewise, the F-value Tobin's Q results are significant at 10% level.

The test results of abnormal returns under the two approaches BHAR and CAR show evidence of the abnormal returns to the acquiring firms' shareholders in the post-acquisition period. Therefore, the results support rejection of the null hypotheses at 1% level of significance in the case of the BHAR approach, and a 5% level of significance in the CAR approach.

The second null hypothesis of operating performance in the post-acquisition period is no greater than the operating performance in the pre-acquisition period. The test results which tested the mean of Tobin's Q support the rejection of the null hypothesis at 10% level of significance.

Table 6.5 presents non-parametric test results of the 30 Indian corporates involved in acquisition events. The set of results presented includes (1) BHAR using the matching firm model, (2) CAR-Market Model and (3) Tobin's Q. The table summarises the test results of the Wilcoxon/Mann-Whitney test results and P-values.

Table 6-5: Non- Parametric Tests

Method	Wilcoxon/Mann-Whitney	
	Value	Probability
BHAR – Matching Firm	4.98	0.0000
CAR-Market Model	2.03	0.0421
Tobin’s Q	2.35	0.0187

It is evident from Table 6.5 that the observed BHAR Wilcoxon/Mann-Whitney value is higher than the critical Wilcoxon/Mann-Whitney value at 1% level of significance.

It is also evident from Table 6.5 that the observed CAR Wilcoxon/Mann-Whitney value is higher than the critical Wilcoxon/Mann-Whitney value at 5% level of significance. In other words, the probability of committing a Type I error when the Wilcoxon/Mann-Whitney value is 4.98 is 0.0421.

Therefore, the two tests results under BHAR and CAR approaches support the rejection of the first null hypothesis of no abnormal returns to the acquiring firms following the acquisition activity in the long period following OFDI-related M&As by Indian corporates at 1% level of significance under the BHAR

approach and 5% under CAR. The test results indicate wealth effects to the stockholders in the post-acquisition period.

It is evident from the results in Table 6.5 that the Tobin's Q mean is significant at 1%. As such, the test results do not support the null hypothesis and therefore the study rejects it at 1% level of significance. This indicates performance operating improvement in the post-acquisition period.

6.3.4 Relating to wealth relative and summary performance of the OFDI-related Indian corporates involved in acquisition activity

Ritter (1991) proposed a wealth relative model as an alternative to the cumulative abnormal returns method. This method implicitly assumes monthly portfolio rebalancing and computes a three-year holding period returns. A wealth relative of greater than 1 is interpreted as firm's security outperforming the control firm; a wealth relative of less than 1 indicates firm's security underperforming the control firm.

Table 6-6: Wealth Relative of the OFDI-related Indian M&A Firms

S.No	Firms	Wealth Relative		Firms	Wealth Relative
1	Tata Corus	>1	17	VSNL	>1
2	DRL	>1	18	Tata Motors	>1
3	Ranbaxy	>1	19	Wochardt's	< 1
4	Hindalco	>1	20	TCS	>1
5	ISPAT	>1	21	Tata Coffee	>1
6	Tata Tea	>1	22	Tata Steel	>1
7	Wipro	>1	23	Tata - Jaguar	>1
8	Ballarpur	>1	24	Tata Chemicals	>1
9	Opto Circuits	>1	25	Videocon	>1
10	United Spirits	>1	26	Lupin-Japan	>1
11	HPCL	>1	27	Piralmal Healthcare	>1
12	M&M-UK	< 1	28	Sun Pharma	>1

13	ONGC-Petrobas	>1	29	Matrix	>1
14	ONGC-Sudan	>1	30	United Phosphorous	>1
15	M&M-Germany	< 1			
16	Sasken	>1			

Table 6.6 summarises the long-term performance of the OFDI related Indian corporates involved in acquisition activity. The performance metric used is wealth relative. It is evident from Table 6.6 that out of the total sample of 30 OFDI related M&As by Indian corporates, the wealth relative of 27 companies showed results greater than one, indicating outperformance when compared to the benchmarking-control firm. In contrast, the wealth relative result for three companies showed less than one, indicating underperformance when compared to the benchmarking control firm. When the long-term performance using the wealth relative metric is expressed in terms of percentage, the outperformed companies comprise 90% of the total size, and underperformed companies comprise 10% of the total sample size.

Table 6.7 presents the summary of long-term performance in terms of positive and negative performance of the Indian corporates under the three appraisal models. It is evident from the table that under the BHAR approach, out of the total of 30

companies, 27 companies showed positive performance and three companies showed negative performance in terms of abnormal market returns. When expressed in percentage, 90% of the 30 Indian companies showed positive results while 10% showed negative results.

Likewise, under the CAR approach, out of the total of 30 OFDI related M&As by Indian corporates, 24 companies showed positive performance and 6 companies showed negative performance in terms of abnormal market returns. In terms of percentage 80% of the thirty Indian companies showed positive results while 20% showed negative results.

In case of Tobin’s Q, it is evident from Table 6.7 that of the total of 30 OFDI related M&As by Indian corporates, 29 showed positive results and one company showed negative results. In terms of percentage, 97% of the total sample showed positive results and 3% of the total sample showed negative results.

Table 6-7: Summary of performance of the OFDI-related Indian M&As under three approaches

Sample Size	BHAR		CAR		Tobin’s Q	
	Positive	Negative	Positive	Negative	Positive	Negative
30	27	3	24	6	29	1

The changes in the sales, dividends and profit after tax in the post-acquisition period over the pre-acquisition period are shown in table 6.8 below. The change in growth of sales, dividends and profit after tax is obtained by applying the growth formulae as mentioned in the methodology Chapter 4. The figures are expressed in percentages.

Comparing the changes in the performance in the pre- and post- acquisition periods

Table 6-8: Growth (post-pre) in Sales, Dividends and Profit After Tax (PAT) in the post-acquisition of the OFDI related Indian corporates involved in Acquisitions.

		Sales (%)		Dividends (%)		PAT (%)	
		Change	Result	Change	Result	Change	Result
1	Tata Steel Corus	66	I	98	I	68	I
2	DRL	162	I	87	I	221	I
3	Ranbaxy	12	I	5	I	-73	D
4	Hindalco	74	I	9	I	43	I
5	ISPAT	62	I		I	47	I
6	Tata Tea	30	I	48	I	180	I

7	Wipro	143	I	101	I	117	I
8	Ballarpur	-48	D	-36	D	-55	D
9	Opto Circuits	407	I	577	I	692	I
10	United Spirits	199	I	55	I	134	I
11	HPCL	88	I	-46	D	-33	D
12	M&M-UK	117	I	180	I	175	I
13	ONGC-Petrobas	52	I	43	I	40	I
14	ONGC-Sudan	89	I	123	I	95	I
15	M&M-Germany	116	I	60	I	141	I
16	VSNL	-5	D	-39	D	-26	D
17	Tata Motors	68	I	72	I	29	I
18	Wochardt's	70	I	14	I	-234	D
19	Tata - Jaguar	48	I	37	I	1	I
20	Tata Chemicals	104	I	62	I	105	I
21	Videocon	69	I	623	I	358	I
22	Lupin-Japan	102	I	251	I	254	I

23	Piralmal Healthcare	63	I	67	I	87	I
24	Tata Coffee	67	I	65	I	8	I
25	Sun Pharma	117	I	281	I	207	I
26	Matrix	132	I	46	I	-48	D
27	Tata Steel	90	I	258	I	174	I
28	United Phosphorous	109	I	180	I	84	I
29	TCS	308	I	281	I	307	I
30	Sasken	97	I			194	I

Note: I – indicates Increase and D – indicates Decrease

It is evident from Table 6.8 above that the change in the growth of sales, dividends and profit after taxes is obvious in the post-acquisition period when compared to the pre-acquisition period. However, there are two companies: Ballarpur and VSNL at firm-specific level that experienced a decline in sales in the post-acquisition period. Likewise, in case of dividends there are three companies that experienced decline. They are Ballarpur, HPCL and VSNL. In profit after tax there are six companies that showed a decline in the post-acquisition period and they are Ranbaxy, Ballarpur, HPCL, VSNL, Wochardt's and Matrix.

Table 6-9: Paired t-test results for the changes in sales, dividends and PAT in the post-acquisition period.

Variables	Mean (Post-Pre)	SD (Post-Pre)	t-values	P-values
Sales	7268	10459.61	3.994	0.0002
Dividends	320	734.60	2.306	0.0145
Profit After Tax (PAT)	915	309.97	2.952	0.0031

It is evident from Table 6.9 that the change in the post-merger operating performance is statistically significant with respect to all three variables used i.e., the sales, dividends and profit after tax. All calculated t-values are greater than the critical value and are significant at 1% level. In other words the probability of committing a Type I error when the sales (post-pre) t- values is 3.99 is 0.0002, when dividends (post-pre) t-values is 2.30 is 0.0145 and PAT (post-pre) t-value is 2.95 is 0.003. The result shows that the OFDI related M&As by the Indian corporates lead to change in the operating performance of acquiring companies.

During the period of the study i.e., 2000-08, the study found a direct correlation between the OFDIs by Indian corporates, the Sales, Total Assets, PAT, PBDIT and Dividends.

Table 6-10: Correlation Matrix of OFDIs, Sales and Total Assets (2000-2007)

	OFDI	Total Assets	Sales	PAT	PBDIT	Dividends
OFDI	1.000					
Total Assets	0.928	1.000				
Sales	0.902	0.976	1.000			
PAT	0.846	0.943	0.989	1.000		
PBDIT	0.859	0.958	0.994	0.996	1.000	
Dividends	0.823	0.913	0.949	0.962	0.953	1.000

Sources: Financial figures drawn from CMIE data base and OFDI from empirical evidence.

Table 6.10 indicates a correlation between the OFDI flows and performance indicators of the Indian corporates involved in the OFDI related acquisitions. The results show a direct correlation between the OFDI flows and the performance indicators which include: Total assets, Sales, PAT, PBDIT and Dividends.

The direct positive correlation between the OFDI activity and Total Assets indicates the increase in the size of the firm following the OFDI related M&As. Likewise, the direct correlation between the total assets and sales indicate that the growth in the size of the corporates following OFDI related M&As also resulted in increased in sales. Likewise, the positive correlation between sales and the PBDIT, PAT and dividends suggests that the increase in sales following the growth in the size of the Indian corporates involved in OFDI related M&As

eventually resulted in increases in PBDIT, PAT and dividends. The correlation between sales, total assets, PBDIT, PAT and dividends suggests that the expected synergies from the identified drivers behind the OFDI related M&As by Indian corporates are working.

6.4 Conclusions

Short term perspective

It is evident from the short-term results presented above that the cumulative abnormal results are positive and show evidence of statistical significance at the 1% level. This indicates that investors remained positive to the news of the OFDI related announcements by the Indian corporates. It signals the confidence investors have in management. The results of the study do not support the null hypothesis and hence, the study rejects the null hypothesis.

There are positive growth rates in the sales, dividends and profits in the post-acquisition period when compared to the pre-acquisition period. The findings of the study are significant and show evidence of significantly positive reactions by investors to the news of OFDI-related acquisitions by Indian corporates. The experiences and influencing factors in international acquisitions by Indian companies are different from those in developed countries. Possible reasons for the difference in outcomes are explained in the following chapter.

However, the firm-specific empirical results did reveal that some corporates did relatively well, while others did relatively poorly. These differences in the

outcomes need explanation. The following chapter gives possible explanations for the poor performance of some companies from the short term announcement effect and also from the long term performance aspect.

Long Term Perspective

The empirical results show evidence of wealth creation to the acquiring firms in the post-acquisition period. In other words, there are abnormal stock returns created to the stockholders in the long run period following the acquisition activity. Under both approaches, the results indicate positive wealth effects to the stockholders of the acquiring companies. It is evident that the confidence expressed by the stockholders in the short run period following the announcement of the OFDI related M&As by Indian corporate is maintained and sustained in the long run post acquisition period. The results indicate that the market return performance of Indian corporates involved in acquisition activity created value in the post-acquisition period. In other words, the performance improvement is evident in the post-acquisition period.

The positive empirical results in the post-acquisition period indicate low risk perception of the shareholders towards the Indian corporates involved in OFDI related M&As and as such the expected returns of the shareholders are lower than the actual firm returns. Hence, the abnormal returns to the Indian firms involved in OFDI related M&As in the post-acquisition period. The positive stock market performance of the Indian corporates in the post-acquisition period indicates that they are able to perform well in the changed institutional environment of the

global arena. The empirical results indicate significant growth in the performance drivers of sales, dividends and PAT in the post-acquisition period when compared to the pre-acquisition period. The chapter that follows will explain the possible reasons for the differing outcomes at the firm-specific level.

CHAPTER 7: THEORETICAL EXPLANATION OF THE EMPIRICAL FINDINGS AT FIRM-SPECIFIC LEVEL

7.1 Introduction

In Chapter 6, the short term and long term market reactions to the OFDI related M&As were reported. The empirical results showed positive wealth effects to stockholders in the short and long-term periods and the empirical results supported rejection of the null hypotheses. However, specific firm-level empirical findings showed mixed results in the short term. For instance, out of the thirty OFDI related M&As by Indian corporates, 11 companies reported negative market reactions in the short term following the announcements of OFDI related M&As by Indian corporates, and the long term results show three companies failed to outperform the benchmarking company.

The variations in the outcomes, such as why one M&A should receive an initial positive market reaction while another adverse market reaction, relate to the individual contexts and how the market assesses the changing return and risk parameters. In this chapter a sample of five companies are chosen because of their differing outcomes. These cases are examined more closely in terms of secondary data released into the market at the time of the proposed M&A. The companies are Tata Steel, Hindalco and ONGC-OVL (all of which had negative short-term market reactions but positive post-acquisition returns); DRL, which had positive results in both the short-term and long-term, more typical of the

majority of the companies; and finally Wockhardt, which experienced negative market reactions in both the short- and long-term. Commentaries from financial analysts and commentators, and media releases from the company concerning a mooted M&A may impact investors' assessments of the return and risk parameters for each company.

The aim is to illuminate information being released into the market that may have influenced investors about the merits of an M&A undertaking. The study will also identify the strategies behind OFDI related M&As by Indian corporates. To identify the strategies behind OFDI related M&As, the study considers secondary data comprising company records, documents, media reports and the regulatory policy issues of the Government of India and the Ministry of Trade and Commerce reports. The objectives and aims of the corporates relating to their strategic decisions are obtained through the vision and mission columns of the company annual reports. The general features of Indian OFDI activity are summarised in a table towards the end of the chapter.

7.2 Explanations for differing outcomes

Case 1: The first case to be examined is the biggest overseas acquisition ever by an Indian company. Tata Steel acquired Corus, formerly known as British Steel. Corus was three times the size of Tata Steel. Tata Steel was established in India under British rule in 1907. Its domestic experience is extensive, and its presence in 26 countries also indicates considerable international experience. In spite of the

vast experience of Tata Steel, the markets reacted adversely following the acquisition announcement of Corus. The acquisition followed a bidding contest with Brazilian and Russian steel companies. The resulting valuation of \$US 12.11 billion was settled in cash. Tata's debt to equity ratio increased. All this occurred at a time when there was a recession and excess capacity in the steel industry.

Short-term empirical findings: The market reacted adversely to the OFDI related acquisition announcement of Corus by Tata Steel.

It is evident from Table 6.2 of Chapter 6 of this study that Tata Steel's share price dropped following the acquisition announcement. This indicates that the market took a short-term view of the economic consequences.

Reasons: The possible reasons²² for adverse market reactions following Tata's acquisition announcement of Corus include:

Deal settlement and financial risk: Tata Steel acquired the Anglo Dutch steel producer Corus Group Plc (Corus) for US\$ 12.11 billion (€ 8.5 billion). After acquiring Corus, Tata Steel emerged as the fifth largest steel producer in the world and second largest in Europe (Business line, 2nd Feb, 2007). According to S.

²² Based on secondary information

Mukherji, Managing Director, ICICI Securities, (February 2007)²³, this deal was referred as the first milestone for India Inc, for crossing the \$10 billion mark. It was a landmark deal since an Indian company had taken over an international company which was three times its size. The deal was settled in cash which is different from mature markets where M&A transactions are typically settled at least partially through equity (see Chapter 4). However, the size of acquisition and the potential cash outflow of about \$12 billion had an adverse impact on its financial risk profile (as per S&P reports presented below). This deal resulted in an increase of 2.5:1 debt-equity ratio, which is much higher than the current industry average of 1:1 (Business line, 2007).

Standard and Poor's Rating Services issued warnings following Tata Steel's announcement of its non-binding offer to acquire 100 per cent equity in Corus Group. It is observed that the Tata Steel had two negative effects from the media reports of Standard & Poor's Ratings Services. First, Tata Steel had been put on Credit Watch²⁴ with negative implications and second, S&P also placed its

²³ Tata Win Booster for Corporate India's Confidence," The Economic Times, February 01, 2007.

²⁴ Credit watch is a notice from a credit rating agency to a bond issuer that a negative factor has arisen in the agency's review of the issuer's credit rating. If the issuer does not take steps to explain or alleviate the factor, the credit watch may be the first step toward a reduction in the issuer's rating. For example, a credit rating agency may discover a dramatic drop in an issuer's liquidity ratio, which increases the likelihood of default on a debt. It would then send a credit watch to the issuer. Alternatively, the credit watch is also re-evaluation of the credit quality of a firm's debt obligations by a rating agency. Being the object of a credit watch generally indicates the credit quality of a firm's debt has deteriorated and may be downgraded.

BBB²⁵ foreign currency rating on the steel company's senior unsecured bank loans of \$750 million and \$500 million on Credit Watch with negative implications. Earlier, the company enjoyed a BBB long-term corporate credit rating by S&P.

Acquisition price: According to Business Line (2007), Tata Steel had first offered to pay 455 pence a share, to close the deal at US\$ 7.6 billion on October 17, 2006, Companhia Siderurgica Nacional's (CSN) the Brazilian steel maker then offered 475 pence a share on November 17, 2006. Finally, an auction²⁶ was initiated on January 31, 2007, and after nine rounds of bidding, Tata Steel could finally clinch the deal by out-bidding Companhia Siderurgica Nacional's (CSN) final offer of 603 pence a share by offering 608 pence (Business Line, 2006). The

(source: <http://financialdictionary.thefreedictionary.com/Credit+Watch>).

²⁵ According to Standard and Poor credit rating agency definition BBB refers to adequate capacity of a firm (borrowing) to meet financial commitments, but more subject to adverse economic conditions.

(source: <http://www.standardandpoors.com/ratings/definitions>).

²⁶ Since Tata Steel and CSN could not declare their final offer by January 31, 2007, an auction had to be initiated by The Takeover Panel which oversees mergers and acquisitions in the UK.

(Source: <http://www.icmrindia.org/casestudies/catalogue/Finance/Tata%20Steel's%20Acquisition%20of%20Corus-Finance%20Case%20Studies.htm>).

competition among the bidders increased the bidding price to almost 34% higher than Tata's first bid of 455 pence per share

Performance issues: Though the potential benefits of the Corus deal were widely appreciated, there were also doubts about the outcome and effects on Tata Steel's performance. For instance, Corus' EBIDTA (earnings before interest, tax, depreciation and amortization), which stood at 8%, was much lower than that of Tata Steel's 30% in the financial year 2006-07²⁷.

Moreover, there were concerns expressed about capacity underutilisation. There were media reports saying 40% of Corus' 20 million tonnes capacity was idle in the first six months of 2007 and job losses close to 10,000 were expected (Business Line, 2007). Consequently, the stockholders might have reacted negatively as the idle capacity indicated a weak network distribution channel and the declining market share of Corus.

The share market's focus on short term results may have coloured the initial reaction of the market to the proposed takeover. Tata Steel's management took a long-term strategic view, possibly reflecting an asymmetric understanding of available information between management and stockholders. Given the long industry experience of Tata Steel's management, they might have put a greater

²⁷ Source:[http://www.icmrindia.org/casestudies/catalogue/Finance/Tata%20Steel's%20Acquisition%20of%20Corus-Finance%20Case%20Studies.htm#The Pitfalls](http://www.icmrindia.org/casestudies/catalogue/Finance/Tata%20Steel's%20Acquisition%20of%20Corus-Finance%20Case%20Studies.htm#The%20Pitfalls)

weight on long-term synergies that could be drawn from acquiring Corus. Stockholders might have been more influenced by information expressing short-term concerns released from the secondary sources. This explains the variations in market reactions in the short-term and mid-term. This observation is in line with the prior findings [Hackbarth and Erwan (2006), and Morellec and Zhdanov (2005)].

Long term empirical findings: Market remained positive in the post-acquisition period.

The short-term adverse results in the case of stockholders were understandable given the circumstances, whereas Tata's view was long term. Tata Steel had foreseen a shortage of steel supply in long term to meet global demand. It wanted to take advantage of the opportunities available.

After acquiring Corus, Tata gained access to an established brand name, superior technology, and extensive networks of distributors in western markets. The empirical findings showing positive performance in the post-acquisition period indicating Tata-Corus Steel had obtained the expected synergies by making primary metals in markets closer to raw materials and establishing finishing (value-adding) facilities in the end-user markets (Athukorala, 2009). In other words, the acquisition of Corus enabled Tata to link their Firm Specific Advantages (FSA) such as labour intensive production, access to raw materials, accumulated managerial skills coupled with the advantages of access to the high

margin markets and high technology in the West through Corus. It meant the company could leverage in western markets the cost advantage of operating from India, and differentiate in Asian markets due to better technology from Corus. These findings are in line with the asset-exploitation perspective of Makino, Lau and Yeh (2002) (details in Chapter 3). This acquisition enabled Tata to acquire competitive advantage in terms of local presence in high growth markets and to compete with other international players with synergies drawn from cost-efficiency due to its de-integrated operations. It could leverage the cost advantages in mature markets. In emerging markets it had the advantage of product differentiation occurring due to superior technology. This is in line with the OLI theory (in Chapter 3).

This acquisition demonstrates the competitive advantage to Tata Steel in making long-term strategic decisions, envisioning the synergies, and being prepared to face negative market reactions in the short term.

For instance, the chairman of Tata Steel Ratan Tata said at the company's 2009 Annual General meeting in response to criticism of the timing of the Corus acquisition: "You cannot gauge the life of a corporate in one or two years. I hope we are able to look back over time and say that we took the right decision." (Business Line, 28 August, 2009, ePaper).

Tata Steel synergised its operations in the long term by acquiring Corus. It obtained competitive advantage in the form of technology, brand, distribution

networking and cost efficiency through the acquisition. Therefore, the firm-specific advantages of Tata-Corus Steel are evident and in line with the prior findings of Lall (1986) and Kumar (1998); Hoesel (1999) and Chen and Chen (1998).

Case 2: Hindalco Industries Limited, a flagship company of the Aditya Birla Group, was established in 1958. It acquired a 100% stake of Novelis for US \$6 billion in 2007. Novelis was a large loss-making entity. In settling the acquisition, Hindalco incurred a huge level of debt. There are similarities with the previous case of Tata Steel. The achievement of long-term strategic benefits was dependent on the company managing to survive in the short-term. The share market did not share management's confidence for survival and long-term success.

Short term empirical findings: Market reacted adversely in the short term.

Deal settlement and financial risk: The mountain of debt that Hindalco inherited with Novelis (\$2.4 billion), in addition to the huge debt obtained to settle the acquisition transaction, weighed on the Indian company. The net worth of Novelis was \$322 million while its debt was \$2.33 billion and the debt-equity ratio was 7:2 (Business line, 2009). Consequently, the market reacted cautiously and the market share price fell following the acquisition.

Performance issues: The secondary information about Novelis being a loss-making entity might also have influenced the negative stock market reactions following the acquisition announcement. The cost inefficiencies occurring due to

fixed term contracts with Novelis' suppliers had negative implications. The losses incurred by Novelis were attributed to long-term contracts it had entered into; especially the fixed price contracts with top clients, which accounted for over 40% of sales. In order to attract more business from soft drink manufacturers, Novelis promised four customers not to increase product prices even if raw material prices went up beyond a point²⁸. A few months after Novelis signed those contracts, raw material prices shot up 39%. Novelis was forced to sell its products at lower prices than raw material costs to these four customers. Two of the four customers were Coca Cola and General Motors which accounted for 20% of Novelis's \$9 billion revenue. The decision not to increase product price for the four major customers led to losses of \$350 million in 2006 (B. Prasad, Nov 2007). As the input costs started increasing in 2006, even as realisations remained fixed, the company's losses increased.

It is understood from theory that the emerging markets can draw synergies when the performance (Tobin's Q) of the target firm is higher than the bidding firm. So the news of Novelis as a loss making entity²⁹ at the time of acquisition might have discouraged the stockholders from being positive. The stockholders were therefore not convinced that Hindalco would deliver value by acquiring Novelis and hence, reacted negatively.

²⁸ See Prasad, Nov 2007.

²⁹ Business Line (2009).

Information asymmetry among the analyst knowledge: Variations in market reactions will arise due to information asymmetries among analysts. Upon the announcement of Hindalco's acquisition of Novelis, brokerage houses reacted in a variety of ways: Asit Mehta Intermediates and UBS Investment Research gave a "Buy" recommendation; IL&FS Investmart gave an "Accumulate" recommendation; SSKI gave a "Neutral" recommendation; Edelweiss Capital gave a "Reduce" recommendation; Citigroup and Merrill Lynch gave a "Sell" recommendation.

According to Vishwanath (2010) the Indian market reacted negatively to the acquisition as investors considered the deal to be overpriced and the acquisition was expected to be a drain on the profitability of Hindalco due to the high leverage of Novelis. Besides, Novelis being a loss making company also worked against Hindalco's prices. Stock price of Novelis, on the other hand, soared 15% on the New York Stock Exchange following the news of the proposed acquisition.

This explanation is in line with prior findings. Clement (1999) finds that financial analyst forecast accuracy is associated with variables that proxy for ability (i.e., experience), extent of resources available to the analyst (i.e., broker size), and the complexity of the task (i.e., number of firms and industries followed by the analyst). Variation in these factors can lead to information asymmetries among analysts, which in turn causes some analysts' reports to be more valuable to investors than others.

Asymmetric information between the management and the stockholders:.

Given the vast experience, Hindalco might have well understood the synergies it could draw by acquiring Novelis (though it was a loss making company). The losses of Novelis were incurred due to sudden market downturn and fixed-term price contracts, not due to inefficiencies in operations. However, the stockholders might have reacted to short-term concerns expressed in secondary sources of information, resulting in stock price declines following the announcement.

Long term empirical findings: Market remained positive in the post-acquisition period.

Results:

Though the markets reacted adversely following the acquisition announcement of Novelis, they corrected and showed positive results in the long term period i.e., in the post-Novelis acquisition period. Hence, this is a case of showing negative value effect in the short run, but positive wealth relative in the long run. This acquisition was a good strategic move for Hindalco.

The competitive advantage acquired through vast domestic experience enabled Hindalco to be a low cost and integrated producer of aluminium. Hindalco emerged as a global player in the aluminium market, with a presence in countries on five continents (North and South America, Europe, Australia and Asia). Its scale of operations increased after acquiring Novelis which is ten times the size of Hindalco. The combination of Hindalco and Novelis is a case of bringing together a global integrated aluminium producer with low-cost alumina and aluminium

production facilities combined with high-end aluminium rolled product capabilities. Hindalco is able to ship primary aluminium from India and make value-added products in the high-end market place. The complementary expertise of both these companies is showing results through performance in the post-acquisition period. This is in line with the prior findings (Lahovnik & Malenkovic, 2011).

The competitive advantage to Hindalco is also evident in the strategy it designed to decrease its debt-burden. The bridge loan taken to finance the Novelis acquisition was totally paid through rights issue³⁰ (Business Line, Friday, 12, April, 2009). This reduced the interest burden to Hindalco and the fixed price contractual obligations of Novelis ended on January 1, 2010. (Business Line, Friday, 12 April, 2009).

The empirical findings show positive operating performance in terms of growth in sales, free cash flows (dividends) and profit after taxes. However, in 2007-08, Hindalco saw a manifold expansion in its consolidated sales, from Rs 191 crore to Rs 600 crore (10 million = 1 crore), attributable to the acquisition of Novelis

³⁰ A rights issue is a way in which a company can sell new shares in order to raise capital. Shares are offered to existing shareholders in proportion to their current shareholding, respecting their pre-emption rights. The price at which the shares are offered is usually at a discount to the current share price, which gives investors an incentive to buy the new shares — if they do not, the value of their holding is diluted

(Source: <http://moneyterms.co.uk/rights-issue/>).

(Source: Business Line, Sunday, July 19, 2009, ePaper). The post-performance results indicate that the combination of the two firms is potentially more valuable than the sum of their pre-acquisition (Novelis, a loss making unit, and Hindalco a profit making unit) and this is in line with Singh and Montgomery (1987). It is evident from Hindalco's acquisition that the market took a short-term view of the existing conditions and hence the negative results, but the long-term post-acquisition performance shows wealth relative greater than one.

Case 3: ONGC-OVL acquired a 15% stake of Petrobras-Brazilia. The settlement amount was USD \$ 1400 million. ONGC was established in 1956 to make India energy-sufficient. Over the years, the company has discovered six of the seven producing basins in India and added 6.4 billion tonnes of oil and gas reserves. Today, according to Platts Top 250 Global Energy Ranking, ONGC is the number one exploration and production company in the world. The company aims to explore newer avenues for a greener planet, excel in its exploratory endeavours and evolve into a complete energy solution provider³¹.

According to Saravanan (2006), in the case of ONGC, domestic competition grew after liberalisation policies implemented by the Indian Government in 1991. The Government prepared a plan called "India Hydrocarbon Vision 2025" and suggested ONGC go global. The competition in domestic business and the hike in

³¹ Source: ONGC, Annual Report 2010-11

oil prices motivated ONGC to create ONGC Videsh Ltd (OVL) for overseas operations. By 2006, ONGC was present in 14 countries and had 24 on-going projects.

The market reacted negatively in the short-term. Explanations relate mainly to government ownership and corporate governance issues.

Short-term empirical findings: Market reacted adversely in the short term.

Reasons: The following are the possible reasons for negative reactions from the stock markets following the news of ONGC's acquisition of Petrobras- Brazil.

Corporate governance³² model and minority interest: The issues raised by the media in connection to the minority shareholders' interest might have influenced the stock markets to react negatively. The Government of India holds 74.14% of shares. Government companies hold 10.09% shares and the remaining 15% are held by the general public and others.

There were secondary reports³³ saying the minority interests were not well protected. Goldman Sachs produced a report that pointed out various corporate governance issues with the company. The report raised issues like minority shareholders of ONGC being short-changed as the government had forced a

³² Source: ONGC, Annual Report 2009-10

³³ Source: Reuters: ONGC acquired 43 assets overseas over last six years, Tue Mar 10, 2009 1:06pm IST

subsidy on the firm, as with other oil and gas firms, which was tantamount to the government (also its promoter) taking out cash from the firm. Goldman Sachs had also criticised ONGC's overseas growth strategy, board composition and International Growth strategy³⁴.

As of March 2010, the board had 13 members comprising seven functional directors (including the chairman & managing director (CMD)) and six non-executive directors (comprising two part-time official nominee directors and four part-time non-official directors) nominated by the Government of India. It is evident from the board mix that there is no international representation on the board despite ONGC going global. The board mix is local and its operations are international, and this might not be an effective balance. This is consistent with the World Bank report. For instance, ONGC does not seem to attract as large a proportion of FDI as its competitors in India. This may reflect the views about corporate governance, strategy, behaviour or other management attributes (World Bank Report, 2011).

One reason for the negative reaction from the stock markets could be that ONGC's core expertise is in production of shallow water and onshore fields. The joint venture of BC-10 with Brazil involves exploration and production in deep

³⁴ Increased international representation on boards seems to correlate positively with increased international revenues: over the past three years, S&P 500 companies where foreign nationals represent 30% or more of the board performed better, on average, than the overall S&P 500 on key financial metrics (Egnon, 2008).

waters which is a divergence from India's existing core expertise. The fact that ONGC is a new comer in the international oil and gas arena means it faces considerable learning curve costs and risks.

Subsidy burden

From an international perspective, it has been observed that ONGC bears the largest petroleum product subsidies burden among national owned countries which include: PDVSA, Venezuela, PEMEX, Mexico, Petrobras, Brazil, Petro, China, Petronas, Malaysia, Petro, South Africa, PTT Thailand, Sonatrach, Algeria, Statoil Norway (Silvana, Brandon, & Noora, 2011).

Bureaucracy blocks growth strategies: The delays caused in making decisions due to bureaucratic intervention hinder ONGC's strategy in deal approval. The Indian Cabinet famously blocked its bid for Nigeria's Akpo field in late 2005. China offers a simpler process: Sinopec's parallel takeover of Syria producer Tanganyika Oil required an extension to secure Beijing's approval, but advanced without any of the public fuss that surrounded ONGC's acquisition. (EC Apr.25,p6).

³⁵Norwegian oil major Statoil and Brazil's Petrobras have quit Oil and Natural Gas Corporation's (ONGC's) K-G basin gas block over government delays in

³⁵ Source: Statoil, Petrobras quit ONGC gas field, Press Trust Of India / New Delhi Apr 03, 2010, 00:44 IST

approving their participation in the deep water acreage. ONGC will now have to do it alone and shoulder added risks in developing the acreage K-G DWN-98/2 which is estimated to have in-place gas reserves of 14 trillion cubic feet. The state-owned firm does not have the production technology to produce gas from such water depth in the geologically hostile K-G basin.

ONGC chairman and managing director R S Sharma wrote to the oil secretary saying red tape was making international oil majors apprehensive over sharing exploration risks in acreages. ONGC in 2007 had farmed out 15% interest in the block to Petrobras and 10% to Norsk Hydro (now Statoil Hydro). "This was done by ONGC as a part of its strategy to capitalise on the technological experience of international companies of repute in the development of deep water discoveries," Sharma wrote.

The block now has 10 discoveries and appraisal drilling is now required to be carried out to assess the potential before finalising development of gas fields. "Although the farm out agreements with Petrobras and Statoil were signed in August/September, 2007, Joint Operating Agreement (JOA) could not be signed with both these companies, initially, due to 9 months taken in obtaining approval on assignment of participating interest, and then one year in signing amendment to the Production Sharing Contract (PSC) from various parties, including the government," he wrote.

Sharma also pointed out delays in other blocks. In the case of deep water block CY-DWN-2001/1 in the Cauvery basin, amendment to the PSC was duly signed by ONGC, Oil India and Petrobras and was submitted to the Indian Government for signing in January 2009. "The same is yet to be signed by the government," he said. "It would kindly be appreciated that such delays lead to doubts and uncertainties," he wrote. "International oil companies have been expressing anxieties and apprehensions for such delays." Withdrawal by the majors without participating in any activity in the block is bound to send ripples in the industry and jeopardise the initial gains of India in the NELP era as an E & P destination.

Sharma also said Petrobras quit the block because of uncertainties about gas pricing and tax holidays. "ONGC is making all needed efforts to adjust to the competitive business environment and level playing format. But, fact remains that it is very difficult to maintain business leadership with such deterrents. In fact, the element of delay in decision/ approvals, including rig moratorium, has factored in some amount of uncertainty in steering drilling activities in large number of deep water blocks operated by ONGC," he added (EC Apr.25,p6). .

According to World Bank Report (2011), India's governance indicators are above the regional averages and have been fairly stable over the period 2004-2008. But regulatory quality and control of corruption remain key concerns.

Long term empirical findings show favourable results

With high economic growth rates, India is a significant consumer of energy resources. But it lacks sufficient domestic resources and is a net importer of oil and natural gas. A central element of India's foreign affairs agenda is 'energy diplomacy', which relates to the need to secure energy suppliers to meet rapidly growing industrial and consumer demand. The petroleum sector is dominated by SOEs, and reforms to reduce state control have been slow (World Bank Report, 2010)

The ONGC's strategy to enhance domestic production and to find equity oil abroad helped to stabilise its oil and gas reserves and production. The ONGC's core expertise is in the production of shallow water and onshore fields (World Bank Report, 2011). Hence, the ONGC had to go overseas to ensure that a stable and secure supply of resources is available to fuel the country's energy-intensive growth. This has been the primary motivation behind overseas acquisitions by Oil & Natural Gas. This is in line with prior findings of Dunning (1998) (1981) and Homburg and Bucerius (2005).

The competitive managerial advantages accrued to ONGC from its vast experience are evident in the strategy it adopted in relation to overseas ventures. For instance, ONGC-OVL had set a target of producing 60 million metric tonnes per annum (MMTPA) in 2025, but its output in 2006 was only 6.34 MMTPA. Its strategy for expansion was based on three entry methods - (a) wholly owned projects acquired during bidding of oil blocks in different countries, (b) production sharing contracts and (c) participation interests. It had established

presence in major oil producing countries, including Russia, Qatar, Libya, Iraq and Iran. Even then, the output from major projects was insufficient to support India's crude requirements. To overcome the limitations, OVL had initiated expansion through acquisition of new projects during 2006 (Source: Business Line, Saturday, January 20, 2009, ePaper).

It is evident that the BC-10, Brazil is showing results. According to CMD-ONGC (2010)³⁶, the growth vehicle of ONGC Videsh Limited (OVL) with 40 projects in 15 countries sourced 8.87 million tonne oil equivalent MTOE of oil and gas in FY'10; the highest-ever. The BC-10 in Brazil, where OVL has 15% participating interest, began production on 12th July, 2009 and is currently producing 72,500 bopd. International production accounts for about 14% of total production. Operates in 43% of its international projects and is a joint operator in an additional 12 per cent. Currently, has international production in Sudan, Vietnam, Syria, Russia, Columbia, Venezuela, RB; and Brazil and exploration projects in Myanmar, Egypt, and Iran.

ONGC, the country's biggest oil explorer by sales and also the biggest Indian firm in terms of consolidated profits, has said that it acquired 43 overseas oil and gas land assets over the last six years. ONGC Videsh has been acquiring one asset every one and half months over the last six years. The state-run oil and gas major

³⁶ Source: ONGC Annual report, 2009-2010

ONGC has beaten the likes of Tatas, Birlas, and Mahindras, among other private business groups, in striking overseas acquisitions (Economic, 9th March, 2009). The deals were struck through its overseas arm ONGC Videsh Ltd (OVL). Compare this to OVL having just one such property in 2003. This translates into an average of seven deals a year, or OVL acquiring one asset every one and half months over the last six years.

According to an ONGC statement, "Investments in some of the properties have been paid back much before the evaluated payback period." The contribution of overseas production to total production of ONGC group has moved up from 7.23% in 2002-2003 to 15.42% in 2007-08. ONGC has added 255.01 MTOE of reserves through overseas acquisition since FY04. The PSU oil and gas major has compared its performance with global peers: ONGC's average lifting cost (2002-06) is \$4.83/barrel oil equivalent (Goodstein, et al.) as against the global peers average of \$5.37/boe and ONGC's average finding cost (2002-06) is \$2.29/boe as against the global peers average of \$3.05/boe (Dutta & Jog, 2009).

The concerns expressed by the secondary reports (Goldman Sachs) regarding the interests of minority shareholders interest were properly addressed by ONGC through its corporate governance practices in the long term. For instance, according to A.K.Hazarika, CMD - ONGC (2011), "good corporate governance

has been the focus area of the company.”. ONGC was conferred ‘Maharatna’³⁷ status by the President of India in April, 2011, and another significant achievement has been the recognition by the Transparency International. As per the “Promoting Revenue Transparency (PRT) Report 2011” by Transparency International and Revenue Watch, ONGC occupies the top rank among 44 global oil and gas companies in the world as far as organizational disclosure practices are concerned (Annual Report, 2011).

It is evident from the cases of ONGC, Tata steel and Hindalco that their focus was on long-term prospects and not on the short term. It is further observed that these companies’ stocks performed poorly following the announcement of OFDI related M&As, but showed positive results in the long run. This reflects the ownership advantages to the Indian corporates in managerial decision making skills which has been acquired through their vast proven experience. The preparedness of

³⁷ The Indian Union Cabinet approved introduction of “Maharatna” category for Central Public Sector Enterprises (CPSEs) in December 2009. A CPSE is eligible to become a Maharatna, when fulfills the following conditions apart from being a Navratna company: it should be listed on Indian stock exchange with minimum prescribed public shareholding under SEBI regulations; it should have an average annual turnover of more than Rs.25,000 crore during the last 3 years; it should have average annual net worth of more than Rs.15,000 crore during the last 3 years; it should have an average annual net profit after tax of more than Rs.5,000 crore during the last 3 years and it should have significant global presence/international operations

Powers of the Boards of Maharatna CPSEs:

The boards of Maharatna CPSEs will be able to exercise all powers to Navratna CPSEs and in addition, exercise enhanced powers in the area of investment in joint ventures/subsidiaries and creation of below Board level. The powers include: To make equity investment to establish financial joint ventures and wholly owned subsidiaries in India or abroad; to undertake mergers and acquisitions, in India or abroad, subject to ceiling of 15% of the net worth of the concerned CPSE in one project, limited to an absolute ceiling of Rs.5,000 crore (Rs.1000 crore for Navratna CPSEs).

facing the short-run downturns in the stock market for better and sustainable results in the long term manifests their confidence. This indicates that the study of short-term effects cannot capture the full effect of the M&As. Hence, the long-run studies are significant to look into the consequences of the M&As.

Case 4: DRL Indian Pharmaceutical Company acquired Betapharm, the fourth largest generic pharmaceutical company in Germany, in February 2006, with 100% stake. The bid price was US\$ 570 million. The M&A transaction was settled through cash payment. The acquisition was hailed as the biggest overseas acquisition made by an Indian pharmaceutical company. The synergies from the acquisition were expected to benefit both DRL and Betapharm according to Satish Reddy, Chief Operating Officer at Dr. Reddy's Laboratories³⁸(DRL).

The keystone for acquisition was DRL's past experience, strong track record and its international profile. Dr. Reddy's Laboratories is India's leading pharmaceutical company with presence in over 100 countries. DRL manufactures a range of products such as active pharmaceutical ingredients, generic and branded finished dosages, speciality pharmaceuticals, and biopharmaceuticals (The Financial Express, Friday, February 17, 2006).

Unlike the previous cases featured in this chapter, the market's initial reaction to a takeover was positive and the share price also improved over the longer term.

³⁸ Business line, July 19th, 2008

Short term empirical findings: Market reacted positively to the OFDI related acquisition announcement of Betapharm by DRL.

Performance issues:

Betapharm - a profitable unit: At the time of acquisition the operating performance of Betapharm was highly profitable and showed double-digit operating profit margins³⁹. The stock markets might have been convinced with the performance of Betapharm and believed that the acquisition would add value to their stocks in future. According to organisation theory of asset exploration and prior findings (in Chapter 3) companies in emerging markets acquire overseas target companies in order to acquire new technological capabilities so that they can augment their existing potential skills and be more competitive in international markets. This is possible when the target company is superior in technology and performance. Hence, the markets reacted positively to the announcement of Betapharm's acquisition by DRL.

History of international performance and acquisitions: The competitive advantage acquired through managerial and professional experience is evident in the case of DRL. Within a year of its inception, DRL became the first Indian company to export active pharmaceutical ingredients to Europe. In 1987, Dr. Reddy's obtained its first USFDA approval for Ibuprofen API and started its

³⁹ Source: Business line, July 19th, 2008.

formulations operations. In 1988, Dr. Reddy's acquired Benzex Laboratories Pvt Limited to expand its Bulk Actives business. In 1990, Dr. Reddy's entered new territory when, for the first time in India, it exported Norfloxacin and Ciprofloxacin to Europe and the Far East. In 1993, Dr. Reddy's Research Foundation was established and the company started its drug discovery programme. In 1994, Dr. Reddy launched a GDR issue of US\$ 48 million. In 1995, the company set up a joint venture in Russia. In 1997, Dr. Reddy's became the first Indian pharmaceutical company to out-license an original molecule when it licensed anti-diabetic molecule, DRF 2593 (Balaglitazone) to Novo Nordisk. In 1998, Dr. Reddy's licensed anti-diabetic molecule, DRF 2725 (Ragaglitazar) to Novo Nordisk. In 1999, the company acquired American Remedies Limited, a pharmaceutical company based in India. In 2000, DRL became the first Asia Pacific pharmaceutical company outside Japan to be listed on the New York Stock Exchange (Kale.D, 2010).

Information symmetry: The media reports and the analysts' views expressed before acquisition were positive. Likewise, the media was effective in releasing news relating to the performance of DRL in the post-acquisition period. Therefore, the information released through the media was positive and the stock market reacted positively to the announcement of DRL acquisition of Betapharm.

Long term empirical findings: Market remained positive in the post-acquisition period.

DRL's vice chairman and CEO G V Prasad said, "We strongly believe that this strategic investment will generate substantial opportunities for long-term value creation for both the companies." (The Financial Express, Friday, February 17, 2006). The acquisition scored high on synergies. The vice-chairman of DRL further said that the front-end presence of Betapharm's in German market complements DRL's domestic manufacturing advantage as well as its pipeline of generic and innovative products. For DRL, it meant ready access to the German generics business - the second-largest generic market in the world after the US. Added to that, the deal was also a good diversifier as DRL's US generics business was then under pressure. By the acquisition of Betapharm, DRL was able to expand its presence in the European market. Betapharm markets high quality generic drugs and has a strong track record of successful product launches. With a current portfolio of 145 marketed products, the company is one of the fastest growing generics companies in Germany. This acquisition strategy enabled DRL to gain an entry platform for the European generics markets and achieve a significant scale in the global market. The acquired firm is in turn expected to leverage DRL's product development and marketing infrastructure to achieve further international growth and expansion. This acquisition also includes a research centre which focuses on applied health management.

G V Prasad explained the rationale for the Betapharm acquisition: "Betapharm has contributed 20% of our revenues. German market is more challenging as even the government wants to decrease prices of generics. But it is different from the

US. Branded generics have a longer lifecycle and price realisation is better. So it is good market to be in (Kale.D, 2010).

Therefore, the identified driver behind DRL's acquisition of Betapharm is not to exploit existing competitive advantage, but to realise and augment potential competitive advantage. It is evident from prior findings in Chapter 3 that the Indian corporates tend to invest in mature markets in order to seek superior technology and other resources which they lack in their domestic markets. This is referred to as asset exploration strategy. This strategy will push them up the value-chain. This strategy is appropriate for those corporates who have the firm-specific advantage with the similar technology (though not as superior as the high growth market). This strategy will make the Indian corporates compatible to seek and upgrade the superior skills. DRL could augment its existing potentialities by acquiring Betapharm. It is evident from Table 2.3 that DRL went global and invested in the US just seven years after its inception. This indicates the technology fitness of the company. It is evident from the empirical findings that DRL had positive stock market results in the short and long runs. The investors expressed confidence by remaining positive in the stock market in the short-term following the acquisition announcement of Betapharm and also in the post-acquisition period. The empirical results also demonstrate the absorptive capacity of DRL.

DRL's approach is in line with the views of Mathews (2006), that firms from developing countries invest abroad to develop linkages with the world market in

order to leverage strategic resources that in turn promote learning within the firm. In other words, firms from developing countries may use outward foreign direct investment not as a means of exploiting existing competitive advantage, but as a means of realising and augmenting potential competitive advantage. Therefore, the information released through the media was positive and the stock market reacted positively to the announcement of DRL's acquisition of Betapharm. Likewise, the on-going corporate news about DRL's performance and increased earnings following the acquisition of Betapharm had given positive signals. Coupled with the performance and growth in sales, PAT and dividends, DRL's stock market remained positive.

Case 5: Wockhardt

This is the case of Wockhardt acquisition of 100% stake of Negma Laboratories in France for US\$ 265 million.

Short term empirical findings: Market reacted adversely in the short term.

Performance issues:

Product diversification: The market might have reacted negatively because of the product diversification strategy of Wockhardt. According to Kale D (2010), Wockhardt has diversified into other businesses overtime. Currently, Wockhardt's product portfolio includes pharmaceuticals (bulk drugs and formulations), medical nutrition, Agri-sciences and hospitals. This diversified portfolio of products also makes the position of Wockhardt quite different from that of DRL and Ranbaxy.

As with the prior findings, the companies may fail to add value when they drift from their core business.

Business Strategy and Domestic Experience: It is evident from Table 2.2 of Chapter 2 that it is established in 1977 and in 1997 it had a joint venture in Botswana. It had taken 20 years from its inception to go overseas. This indicates that Wockhardt's business strategy to go overseas to expand its markets was slow when compared to other companies in the same sector. For instance, its counterpart DRL could internationalise within four years of its inception (evident in the above case). This indicates Wockhardt's low competitive advantages acquired through domestic experience. Hence, the stock markets might have not been convinced about the overseas acquisition of Negma Laboratories announced by Wockhardt.

Absorptive Capacity: Wockhardt's first joint venture overseas in 1997 with Botswana before it spread its operations to UK in 2002 indicates (as per prior findings) that it did not possess superior technology and hence, invested in Botswana. This is in line with prior studies ((Makino, Lau and Yeh, 2002). As per the international organisation theory and prior findings it is understood corporates that invest in developed countries tend to possess superior technology and have absorptive capacity⁴⁰. This might have been one of the reasons for the negative

⁴⁰ The prior studies generally suggest that firms that possess superior firm-specific advantages are more likely to engage in strategic asset-seeking FDI and hence invest in

reactions from the stock markets following the announcement of Negma's acquisition by Wockhardt.

Long term empirical findings: Under performed in the post-acquisition period.

It is evident from the long term results (wealth relative measure and CAR) that Wockhardt did not create wealth for its stockholders. The empirical results indicate that Wockhardt is the only company in the pharmaceutical sector with negative CAR in the short term and long term. The possible explanations can be drawn from the OLI theory. These empirical results lead to the question: Why did Wockhardt receive a negative stock market reaction when it acquired Negma Laboratories from France while DRL received a positive reaction when it acquired Betapharm from Germany? According to Kale. D (2010), Wockhardt was started by the Khorakiwala family in 1959 as a small pharmaceutical distribution and selling entity. The company set up its first formulation plant in 1977 and soon established a bulk drug plant in 1983. In particular, the existence of a thriving hospital business makes it potentially possible for the company to be a fully integrated company, undertaking clinical trials and manufacturing drugs. The

Developed Countries (DC), than those firms that do not possess such advantages (who tend to prefer investing in less developed countries).. Besides, for an asset-seeking FDI to occur in a developed country, the newly industrialised enterprises (Markides & Oyon) firms should possess related technological capabilities that are advanced enough to absorb the superior technological capabilities owned by the source firms in the DC (Makino, Lau and Yeh, 2002).

company was privately held and listed on the Mumbai Stock Exchange in 1992 and followed that with listings in Luxemburg in 1994 and the US in 2003. It is evident from Table 2.3 in Chapter 2, that DRL and Wockhardt share some similarities: First, their host country is in Europe and second, they are in the pharmaceutical sector. In spite of the similarities, why the variations in outcomes?

A possible explanation is that the variations occurred because of absorptive capacity, difference in the shareholding pattern and product diversification strategy. It is evident that though DRL was a late-comer compared to Wockhardt in the domestic market, it was however, the first company to invest in a mature market. Therefore, the markets might have considered the absorptive capacity as an important indicator for the future success for DRL and Wockhardt .

The shareholding pattern⁴¹ of Wockhardt suggests 73.64% of shares were held by promoters and the remaining 26.36% held by financial institutions and the general public. On the contrary, DRL shareholding pattern suggests that 25.62% of the total shares were held by promoters and the remaining by financial institutions and the general public. The concentration of majority shares by the promoters might hinder them when making strategic decisions because of risk-aversion motive. For instance, prior findings indicate that concentrated shareholding may create entrenchment effects in addition to incentives effects (McConnell &

⁴¹ Source: Bombay Stock Exchange.

Servaes, 1990); (Mikkelson & Partch, 1989); (Morck, Shleifer, & Vishny, 1988) and, instead of imposing an efficient monitoring and control on managerial discretion, the large-block shareholders may produce their own set of agency costs (Roe, 1990).

The markets might have considered the absorptive capacity as an important indicator for the future success for DRL and Wockhardt. Likewise, as with the prior findings, corporates involved in diversified product mix did not deliver value when compared to the non-conglomerates. Hence, the variations in outcomes.

7.3 Identified drivers behind the OFDI related M&As by Indian Corporates

The study adopts a firm-specific approach to examine the underlying factors from evidence available on OFDI related M&As of Indian companies at firm level. It briefs the intentions of the 30 selected OFDI related M&As by Indian corporates based on the secondary data.

Based on the secondary information the factors underlying OFDI related M&As by Indian corporates are shown in Table 7.1. The discussion that follows in the study is drawn primarily from the above mentioned secondary sources.

Table 7-1: Identified Drivers behind OFDI related M&As by Indian Corporates

Sector	Companies	Underlying factors	Driver
steel	Tata Steel	Horizontal and in part vertical integration, cost advantages and strong distribution network in Europe	Asset seeking and Market seeking
pharmaceutical	DRL	Market access, product portfolio, marketing infrastructure and long term value creation	Strategic asset seeking
IT	TCS	Delivering services throughout sourcing, shared services, product portfolio and securing markets	Efficiency seeking
pharmaceutical	Ranbaxy	Market access, product portfolio, patents, lowering costs, technology and brand	Strategic asset seeking
aluminium	Hindalco	World class technology, wide clientele base, cost reduction, synergies by combining high-end player with the low-end players	Strategic asset seeking

steel	ISPAT	Resource seeking, global presence, cost advantages, technology	Market Seeking
steel	Tata	Grow from domestic player into a regional player in the East and South East Asian markets and capacity utilisation	Market Seeking
pharmaceutical	Matrix	Market access into underrepresented, high growth generic pharmaceuticals markets of Belgium and Southern Europe, brand, marketing and distribution product portfolio, patents, and technology	Strategic Market seeking
paper	Ballarpur	Expand globally the paper and pulp operations, capacity enhancement, technology transfer, product portfolio, developing ancillary industry and access to resources	Market Seeking
medical equipment	Opto Circuits	Market access, product portfolio, patents, technology and brand	Strategic asset seeking
automotive	Tata Motors (Jaguar and Land rover)	Brand, technology, global presence, wide clientele base,	Strategic asset seeking

automotive	Tata Motors (Daewoo)	Synergies in marketing, research and product development, operational areas through their complimentary fit	Efficiency seeking and Market seeking
IT	Sasken Communication	Delivering services, Shared services, product portfolio and securing markets	Efficiency seeking
oil	HPCL	Resource seeking, global presence, cost advantages, technology	Natural resource seeking
oil	ONGC Videsh	Resource seeking, to overcome domestic competition and hike in prices and to explore opportunities further	Natural resource seeking and technology
food	Tata Tea	Brand, access to raw materials, global presence, wide clientele base, deriving efficiencies of integration and aggression in market place to gain market share	Strategic asset seeking
food	Tata Coffee	Brand, global beverage player,	Strategic asset seeking

pharmaceutical	Wochardt	Market access, product portfolio, patents, technology and brand	Strategic asset seeking
consumer	Videocon Thompson SA	Brand, technology, global presence, wide clientele base	Strategic asset seeking
telecom	VSNL	Global presence, shared services, wide clientele bas	Efficiency seeking
forging	Mahindra & Mahindra	World class technology, wide clientele base, cost reduction, synergies by combining high-end player with the low-end players, brand and value creation	Efficiency seeking
beverages	United Spirits	Brand, global presence, wide clientele base, product portfolio	Strategic asset seeking
pharmaceutical	Lupin	Market access, product portfolio, patents, technology and brand	Strategic asset seeking
fertilizers	United Phosphorus Ltd	Product portfolio, networking synergies leading to global presence and to seek research and development capabilities	Strategic asset seeking
pharmaceutical	Sun Pharma	Market access, product portfolio, lowering costs patents, technology and brand	Strategic asset seeking

chemicals	Tata Chemicals	Mutual learning through technology and market expertise sharing, geographical networking through global presence	Efficiency seeking
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Source: Compilation of the secondary data (media, publications, empirical evidence and official reports)

It is evident from the above table that one common feature of all the OFDI related M&As is that they are all non-diversifying acquisitions. The drivers are identified, based on the secondary sources for the Indian corporates going global through acquisitions, include synergies drawn by combining a high-end player with low-end players, resource seeking, global presence, technology, product portfolio, brand, patents, cost advantages, research and product development, shared services, access to resources and horizontal and vertical integration.

The present study considers investments in production facilities situated in other than developed countries as a proxy for market seeking, investments made in production facilities in developed countries as a proxy for strategic asset seeking and investments made for acquiring relevant resources as a proxy for resource seeking. This is in line with prior studies as presented in Chapter 3 (Deng (2004), Buckley (2007) and Sathye (2009)).

The asset-exploitation perspective of FDI commonly posits that firms that possess firm-specific advantages utilise these advantages to operate abroad to seek markets or low-cost natural resources or labour force. The example of Tata

Motors outlines the asset-exploitation perspective of the Indian corporates involved in OFDI related M&As. This is in line with prior studies (Makino, Lau and Yeh (Makino, et al., 2002)

Tata Motors is a good example of asset exploitation strategy by an Indian corporate. For instance, according to Kumar (2008), Tata Motors is the first Indian company to be listed on the New York Stock Exchange. Tata Motors is a well-known automobile producer in India, which proved its unique ability to deliver value for money as represented in the development of the world's cheapest car – the Nano (Kumar, 2008). Tata also developed India's first sports utility vehicle, the Tata Safari and India's first indigenously manufactured passenger car, the Tata Indica. The company also makes the Tata Indigo and the Tata Sumo. Additionally, it markets and distributes Fiat cars in India. Tata Motors manufactures a wide range of buses as well as light, medium and heavy commercial vehicles (www.tatamotors.com). The company also manufactures and sells passenger buses in the light, medium and heavy segments. The competitive ownership advantage to Tata Motors lies in its new technologies combined with its managerial capabilities. It is evident from the above that Tata Motors possess firm-specific advantages in developing cars and other utility vehicles economically and intends to utilise these advantages to operate abroad and seek markets. Tata Motors acquired the two iconic brands Jaguar and Land Rover to improve its growth prospects worldwide. This acquisition enabled the company to

operate its headquarters from Britain. This acquisition provides a significant expansion of car-making capability for Tata Motors.

The case of DRL and Piramal are examples of pharmaceutical Indian corporates with asset-exploration perspectives. According to Kale. D (2010), Indian firms are moving up the value chain by acquiring specific skills and technologies in advanced markets. In the high volume, low cost active pharmaceutical ingredient (API) market, Indian firms are now facing competition from Chinese firms which can manufacture bulk drugs at a cheaper rate than Indian firms. Indian firms are using access to technology as a differentiating factor where competition on the basis of cost has limitations. Nicholas Piramal's acquisition of Avecia or DRL's acquisition of Trigenesis show Indian firms' efforts to move up the value chain by augmenting existing capabilities through acquisition. Avecia, Nicholas' acquisition, makes toxic products and other high value drugs such as hormones, and owns fermentation equipment to make drugs more efficiently. These drugs require a high quality of safety and containment and therefore they are highly-priced making them more profitable to innovators. DRL's acquisition of Trigenesis gives the company access to certain products and proprietary drug delivery technology platforms to develop a pipeline of drugs in the dermatology segment. One of Trigenesis's proprietary technologies takes care of major challenges faced in the formulation and delivery of drugs in the areas of oral, injectables, inhaled and topical delivery. The above empirical findings show the motive of asset

exploration by the Indian pharmaceutical companies which is in line with prior findings (Makino et al, 2002).

7.4 Nexus between the OFDI Indian government policy and the identified drivers behind OFDI related M&As by Indian corporates

It is evident from Tables 2.1 and 2.2 of Chapter 2 that the Indian Government's approach towards OFDI underwent drastic changes where there was a shift from restrictive policy regime to the liberalised policy regime. These policy changes provided opportunities for Indian corporates to go global through OFDI related M&As. The outcome was an increase in the amount of overseas investments by Indian companies. In other words, the policy changes adopted during the third phase triggered a sharp increase in OFDI related M&As.

This indicates that the corporate decisions are affected by the legal framework governing international capital flows as well as by proactive policy measures to assist companies in their internationalisation process. Therefore, there is conducive scope for the government in India to either influence OFDI flows by creating a competitive business environment or to restrict through regulations. The nexus between Government of India policy and strategies adopted by Indian corporates support the three stage dynamic comparative model of government-business relationships (the period considered was from 1980-1990) proposed by Agarwal and Agmon, 1990 (Chapter 3), with a slight difference i.e., the difference

in the period under observation. The present study looked into the government policy changes from 1974 – 2008 and the contextual difference is much wider. The term internationalisation includes the OFDIs taking the form of M&As while in the Agarwal and Agnon model (1990) internationalisation was restricted to foreign exports, export markets and export promotion activities.

It is evident from the above discussion that the Indian Government's OFDI policies impact the strategic decisions of business organisations. It supports the institution-based view (Buckley, 2007; Peng and Delios, 2006) which states that the international strategies are shaped by the home institutional environment¹ and the institutional constraints in emerging economies tend to be much stronger than those in developed countries and include the substantial influence of governments on companies' strategy decisions (P. Deng, 2008). Likewise, it is understood from the literature that active government involvement in business via ownership or through regulatory framework is a rather common phenomenon in most of the latecomer and transition economies, especially in Asia (Peng, 2000 cited in Child and Rodrigues, 2005).

The present study develops and proposes the emerging approach of Indian corporates in Table 7.2 based on the prior findings in Chapter 4 and discussion presented above. The traditional Indian approach signifies the approach of the Indian corporates prior to 2000 and the emerging approach comes after the liberalisation of OFDI policy.

Table 7-2: : Changes in Approaches of Indian Corporates involved in OFDI related M&As

	Traditional Indian Approach	Emerging Indian Approach
Rationale	Lower costs	Add value to the stocks
Operations model	Integrated	De-Integrated/Disintegrated
Approach	Market Seeking with existing firm-specific advantages	Strategic Asset-Seeking with existing firm-specific advantages coupled with acquired competitive advantages to effectively compete in global markets
Synergy Levels	Drawn from Cost controls	Drawn from combination of low-cost commodity player and value-added (branded) high end commodity player, Brand, Technology, Product differentiation, Shared services and also cost controls
Investment Type	Greenfield or Joint Venture	Brownfield Investments & Joint Ventures
Destination	Developing countries	Developed Countries
Networking	Limited in scope	Sophisticated and widely distributed
Product type	Semi-Finished goods	Semi-Finished goods & Finished goods
Regulatory Environment	Restricted	Liberalised
Technology	Labour-intensive and less sophisticated	Sophisticated and efficiency
Transactions	Technology Services	Technology Transfers and Shared services
Value-Chain	Start point of the value chain	Moving up the value chain

Indian corporates have changed their approach over time and as a result of government policy changes. It is evident from the table above that under the traditional approach Indian corporate activity was narrow in scope, limited in terms of technology, production, position in value-chain and business focus. The type of investment was Greenfield or joint venture. On the other hand, under the emerging approach the corporate strategy has a wider focus. The corporates try to increase their market share through strategic asset seeking, which includes the existing firm-specific level advantages coupled with the acquired competitive advantages. This approach enables the corporates to effectively compete in international markets. The corporates expect to draw synergies through their complementary fit in terms of superior technology, network distribution and product differentiation. Unlike the organic growth under the traditional approach, the current preference of Indian corporates is inorganic growth through Brownfield investments.

7.5 Comparison of Empirical Findings with Prior findings from Mature markets

The following comparison shows how the context, situation and environment for Indian cross-border M&As differ from M&As in mature markets. The majority of the prior findings documented in the literature (Chapter 4) from the mature markets showed negative wealth effects to stockholders in the short term following announcements and in the long term subsequent to the mergers and

acquisitions. Likewise, the global landscape changed over the period and phenomenon identified in mature markets relating to the short term and long term performance following M&A activity doesn't remain the same from Indian context. These differences which lead to the possibilities for variations in the empirical findings are presented below:

.Ownership structures: The institutional environment in Asian countries is different from the US and various researchers have suggested that agency problems may be less severe in Asian countries (e.g., Claessens et al., 2000), partly because they have a more concentrated ownership structure (i.e., wealth controlled by a few family groups or by central government). According to Ma et al., (2009) agency theory is not suitable to explain M&A activities in Asian emerging markets because of the differences in ownership structures between developed and developing countries. For instance, in India the majority of corporates that went for overseas investments are family-owned companies.

First, the US has a well-developed legal system to protect the interests of shareholders and the welfare of consumers. This is different from many emerging economies that suffer from poor legal environments and weak enforcement of existing laws (LaPorta, Lopez-de-Silanes, & Shleifer, 1999). Second, cultural and governance differences between developing and developed markets lead to differences in the organisational structure of firms (Dennis & McConnell, 1986).

Conglomerate Mergers: It is evident from the literature that conglomerate mergers were central from the period 1960 onwards in US. The distinguishing feature of the mergers occurring in the 1960s was to diversify or extend the acquiring companies' product mixes (Mueller, 1977). While, in India's case, all the OFDI related M&As by Indian corporates belong to the same sector and fall into the category of non-diversifying M&As. This difference could add to variations in the results.

Mode of Settlement: Most of the research focuses on whether cash offers or equity offers are value maximising. There is reasonably consistent evidence that cash bids are associated with better performance in both the short run (Dong, Hirshleifer, Richardson, & Teoh, 2005) et al. 2005; Draper and Paudyal 1999; Travlos 1987; Walker 2000) and the long run (Cosh and Guest 2001; Linn and Switzer 2001; Loughran and Vijh 1997). The prior findings show evidence that stock-based deals are associated with significantly negative returns at deal announcements, whereas cash deals are zero or slightly positive (see Asquith, Bruner and Mullins (1987), Huang and Walkling (1987), Travlos (1987) and Yook (2000).

One reason for this may be that acquirers decide on their payment method, depending on whether they expect higher or lower performance in the forthcoming periods. Hence, acquirers will pay in cash if they believe their shares are undervalued, and they will choose equity if they think their shares are overvalued. Cash payments might serve as a signal to the market that the

acquiring firm's management expect an increase in firm value over the post-acquisition period (Myers and Majluf, 1984). Transactions paid with equity will result in a dilution of the share price, as the number of outstanding shares increases, while the value of the firm remains the same until expected synergies take effect (Mitchell et al.2004).

As documented in the literature, the mode of settlement for majority of the companies involved in M&A activity in the mature markets was equity settlement. It is evident from the Table 2.3 in Chapter 2 that all Indian corporates involved in thirty OFDI related M&As settled their M&A transactions in cash.

Regulatory Issues: US reported empirical findings suggest M&A regulation is costly to investors. Weir (1983) finds evidence suggesting that Federal Trade Commission antitrust actions benefit competitive rivals of the buyer and target. Jarrell and Bradley (1980) and Asquith Bruner and Mullins (1983) find that returns to merging firms were significantly higher before rather than after implementation of the Williams Amendment in October 1969. Schipper and Thompson (1983) considered four regulatory changes between 1968 and 1970 and found wealth reducing effects associated with increased regulation.

More recently, the rules and regulations governing the international firms have been dramatically altered to facilitate operations of the foreign firms (UNCTAD, 2008). Opening up of capital markets has been made easier (than before) for emerging multinational enterprises from developing countries to raise equity

capital and debt, besides facilitating their listing of shares on foreign stock exchanges. [Ramamurti (2008); RBI (2009)].

Asset Exploitation: It is evident from the literature that firms are driven by an asset-exploitation perspective when they possess firm-specific advantages. They tend to expand and internationalise and use their scale of operations to the fuller extent. These corporates possess firm-specific advantages in the form of superior technology and brands. They have extensive distribution channels in mature markets and try to expand their market horizons. According to Mathews (2006), asset exploitation is not appropriate for corporates from emerging markets because they often seek to invest abroad to secure a competitive advantage they currently do not possess. It is true from Indian context, evidenced by Tata Steel and Hindalco. By combining their firm-specific skills with the competitive skills acquired through OFDI related M&As, Indian corporates are able to compete in international markets. They also draw synergies through complementary fit occurring due to disintegrated model of operations subsequent to the acquisitions.

Table 7-3: Comparison between mature market and emerging market studies

Details	Mature Market Studies	Indian Studies
Settlement of M&A transaction	Equity settlements	Cash settlements
Asset Exploitation	Corporates are driven by asset exploitation because they possess firm-specific advantages which enables them to compete in international markets	Asset exploitation is possible only when the corporates acquire the competitive advantages and combine them to their firm specific advantages such that they can compete in the global markets
Motive	Asset Exploitation	Asset Exploration and Asset Exploitation
Performance of Bidding and Target firm	Acquiring Firm's Tobin's $Q >$ Target Firm's Tobin's Q	Acquiring Firm's Tobin's $Q <$ Target Firm's Tobin's Q
Agency Problems	More Severe because of the diffused ownership structures	Less severe because the ownership structures are concentrated and majority of them are either family owned or Government owned
Regulations	Increased Regulations	Liberalised/Unregulated
Legal Systems	Well-developed	Not-well developed

Diversification	Conglomerate Mergers	Non-diversifying acquisitions
Acquired and Target group – Geography	Developed to Developed countries	Emerging to Developed countries

Table 7.3 presents the possibilities for differences in the outcomes of the studies from mature markets and Indian context due to underlying differences behind initiating the M&A transaction.

From the review of literature presented in Chapter 4 it is evident that until 2000, the majority of M&A studies focussed on mature markets. OFDI- related M&As are a recent phenomenon in emerging markets and any studies undertaken about them have been recent. However, the studies undertaken in mature and emerging markets is that with reference to OFDI related M&As have examined two issues in common. They are: (1) Short term market reactions following the announcements and (2) Long term performance following the M&As in the post-acquisition period.

It is evident from Section 7.4 that the context and situation for M&As initiated in mature markets are different from those in emerging markets, specifically India, and therefore outcomes are different too.

7.6 Conclusions

Theoretical explanations for the differing outcomes of the firm-specific empirical findings have been offered and given a basis for the development of testable propositions for future empirical researchers. For instance, the short term results supported the prior studies that the Indian corporates involved in OFDI related M&As performed well domestically prior to acquisitions. Through their performance they have established and consolidated overtime and proved themselves in their domestic markets. However, the firm-specific empirical findings are contradictory to the overall empirical findings. It is understood that the stock markets reacted negatively to the OFDI related announcements by Indian corporates in spite of their positive performance in the pre-acquisition period in domestic markets. The study provided explanations for the variations in outcomes.

The study further examined the Indian corporates based on the prior findings and theory. It identified that Indian corporates acquired competitive ownership advantages through the OFDI related M&As. For instance, through acquisitions the Indian corporates had the advantage of being local in foreign destinations and avoided the disadvantages of being foreigners in European, UK & US markets. By undertaking integrated production networking, the Indian corporates linked the low-end players with the high-end players and were able to draw synergies and deliver value. In other words, the initial processing of raw materials was carried

out in India closer to source and then the remaining processes were carried out in the acquired company's country which allowed them to have access to the technology and also interface with the customers of the acquired companies.

Considering the Indian case, it is evident from the identified drivers that most of the acquisitions fall in a pattern that involves bringing together the low cost back-end of an Indian company with the front-end having an interface with customers in developed countries. The empirical results indicate that the OFDI related M&As by Indian corporates are able to fully exploit the synergies and are delivering value to the shareholders. Though there had been differing outcomes in the short term performance following the announcement of OFDI related M&As by Indian corporates, the performance improved in the long term in the three year period following acquisition.

The study has given theoretical explanations for competitive advantages occurring to Indian corporates as a result of vast experience in domestic business. From this perspective, the study offers testable propositions for future empirical researchers in the area of financing; implications on the capital structure of the OFDI related M&As by Indian corporates, the impact of international borrowings on the cost of capital, changes in cost structures, and so on.

Likewise, in order to understand the linkage between the strategic investment decisions, boards, corporate governance variables and performance, the study proposes a need for further empirical analysis to examine competitive advantages

arising from boards and effective corporate governance. A further empirical analysis can be undertaken to examine corporate governance characteristics of Indian corporates.

The study has given theoretical explanation for the empirical findings and variations of outcomes in the short term and long term periods. The study also showed differing underlying factors behind initiating M&As, considering the studies from mature markets and India. By doing so, the study, thus, opens up possibilities for future empirical research.

CHAPTER 8: CONCLUSIONS OF THE STUDY

8.1 Introduction

This chapter concludes the major findings of the study, outlines contribution and presents its limitations.

Encouraged by the financial reforms initiation by government of India, an increase in large scale mergers and acquisitions (M&As) by Indian corporates occurred. The majority of the Indian corporates which were hitherto protected and limited to their domestic environment and investments in developing countries are now exposed to international markets with the maturity markets as prime focus. There could be risks and challenges to the Indian corporates in the global arena. It is important to see how the Indian corporates perform in the international markets. The present study therefore examines the performance of Indian corporates involved in the OFDI related M&As.

It is evident from the literature that the majority of studies in the area of cross-border M&As reported from 1950-2000 are dominated by developed countries. This is because M&A activity was popular in US, UK and Europe during that period. Cross-border M&As in emerging nations are relatively recent so the empirical findings are limited. This study is built on the wealth maximisation theory and Ownership, Location and Internationalisation theory. From an Indian context it is evident from Chapter 4 that the majority of Indian studies examined the patterns of the outward foreign direct investments, notable among them are the emerging pattern of India's outward foreign direct investment under influence of

state policy: a macro view (Singh & Jain, 2009; Nayyar, 2008; Rajan, 2000 & Kumar 2008). The study of Kale (2009) considered only small scale companies which involved the investments less than USD\$48 million. The study of Gubbi, Aulakh, Ray, & Chittoor (Gubbi, et al., 2010) examined the post-acquisition performance for a sample size of 412. Their study did not examine the short term announcement effect. The study of Zhu & Malhotra, (2008) considered short term and long term performance of Indian acquiring firms. But it is limited in scope in which it considered only service sector cross border mergers and acquisitions by Indian corporates in the US only.

The study is important because it is the first to assess the success of Indian corporates involved in overseas investments from the short term and long term perspective and across sectors. The study fills the gap in the literature in which it examines the aggregate performance and also looks into firm specific level performance. The study provides possible theoretical explanations at firm specific level for the variations in outcomes observed in the stock market performance following the announcements. This approach of theorisation opens up possibilities for future empirical research.

The present study addressed the following two basic issues:

- How does the market react to the news of an OFDI-related M&A?
 - Short-term announcement effect

- Does corporate performance improve as a consequence of an OFDI-related M&A?
 - Long-term share price movements

8.2 Short term

The study used event study method to observe the behaviour of the investors in the stock market to the news of an OFDI related M&A. The study included 30 companies which are involved in OFDI related M&A transactions between 2000 and 2008 from seven sectors. The study used market model to capture the effect of trade following the announcement and extended the interval to pre-event day (-1), (0) event day (announcement day) and post event day (+1).

8.2.1 Research Hypothesis

The study uses the event method to test the hypothesis relating to the short-run share price performance of OFDI related Indian corporates involved in M&As.

Ho: There are no abnormal returns on the announcement day (0) following the announcement of the OFDI related M&As.

8.2.2 Methods – short term

The present study measures the short-run performance of thirty OFDI related M&As by Indian companies. The study considers a three-day short-event window surrounding the acquisition announcement period. It includes a day prior to the

announcement and the event day (announcement day) and a day following the announcement. The study concentrates only on a short-run event study method, restricting analysis to a short-event window (closely surrounding the announcement day). The event date for the study is set to be the date of announcement of the respective M&A event. This provides the best comparison of the various methods because the shorter the event window, the more precise the tests.

8.2.3 Analysis of Results

It is evident from the empirical results that the stock markets reacted positively in the short run following the announcements of the OFDI related M&As by Indian corporates. The empirical findings of the study showed positive results following the announcements of the OFDI related M&As by the Indian corporates. The abnormal returns are positive throughout the event window (-1, 0, -1). The AAR is statistically significant at 1% a day prior to announcement, significant at 5% level on the announcement day, and significant at 10% on the post event day. The Cumulative Abnormal Returns over the event window (-1, 0, -1) are statistically significant at 1% level. It indicates the creation of wealth to the stockholders of the bidding firms following OFDI related M&As. The empirical test results supported the rejection of the null hypothesis at 5% level of significance. However, in the case of a few companies, the empirical results also showed negative abnormal returns following the news of OFDI related M&As by the

Indian corporates. Hence, there are differing outcomes in the short term at firm-specific level.

8.3 Long term

The present study measures the long-run performance of the Indian companies involved in thirty OFDI related M&As. The study considers a maximum 36 months following the acquisition event month. In this way it minimises the possible econometric problems arising from the use of longer horizons. The period of the study signifies acquisition activity and covers selected Indian firms involved in OFDI related M&As during 2000-2008.

It examines the shareholders wealth effects as a consequence of OFDI related M&As of Indian corporates.

8.3.1 Hypotheses of the study (Long term perspective)

The study tests the post-acquisition performance following OFDI related M&A with the following hypotheses: (1) Ho: There are no abnormal returns to the acquiring firms following the acquisition activity in the long run and (2) Ho: Financial performance in the post-acquisition period is no greater than the operating performance in the pre-acquisition period.

8.3.2 Methods used

The present study pursues two different approaches to test the first null hypothesis and assess the long-term performance of the OFDI related M&A firms. The method chosen is in line with the studies conducted and documented in the literature (Ikenberry, et al., 1995), (S. P. Kothari & Warner, 1997), (Lyon, et al., 1999) and (Zhu & Malhotra, 2008). The first is one of the most commonly used techniques in the literature. i.e., CAR using the market model. The market returns of the Bombay Stock Exchange (BSE) Index and the monthly returns of the firm are used.

The second approach calculates long-run abnormal returns considering the buy-and-hold strategy. The study attempts to overcome the issues relating to the BHAR. The study uses a control firm approach and matches the OFDI related Indian company's abnormal market return with the control firm that is chosen from the BSE Index based on a set criteria. To be considered, the control firm should be of the same size, and belong to the same sector and should not be involved in acquisition activity. The selection criteria is in line with Barber and Lyon (1997) who document that matching sample firms to control firms of similar size yields test statistics that are well specified in all sampling situations.

The second hypothesis is tested by assessing the operating performance of the sample firms. The study uses ex-ante and ex-post approach and employs Tobin's Q and considers three years' pre-event and three years' post-event in line with

prior studies (Zhu & Malhotra, 2008). The significance of the mean changes in the two periods is tested by using t-test.

The study also employs the wealth relative method proposed by Ritter (1991) to explain the performance of the firms.

8.4 Analysis of Results

Long term: The empirical findings of the study show positive results in the post – acquisition period following the OFDI related M&As by the Indian corporates. It is evident from the empirical results that the BHAR t value is higher than the critical t-value at 1% level of significance while CAR is higher than the critical t-value at 5% level of significance. Likewise, Tobin’s Q t-value is higher than the critical t-value at 10% level of significance. Therefore, the first null hypothesis of no abnormal returns to the acquiring firms following the acquisition activity in the long-run is tested. The empirical results supported the rejection of null hypothesis at 1% level of significance in the case of the BHAR approach and a 5% level of significance in the CAR approach. The second null hypothesis, which assumes operating performance in the post-acquisition period is no greater than the operating performance in the pre-acquisition period, is rejected at the 10% level of significance. The empirical test results indicate that there are abnormal stock returns created to the stockholders in the long-run period following the acquisition activity.

These results under both the approaches indicate positive wealth effects to the stockholders of the acquiring companies. It is evident that the confidence expressed by the stockholders in the short-run period following the announcement of the OFDI related M&As by Indian corporate is maintained and sustained in the long-run post-acquisition period. The results indicate that the market return performance of Indian corporates involved in acquisition activity created value in the post-acquisition period. In other words, the performance improvement is evidenced in the post-acquisition period.

8.5 Explanation for variations in outcomes of the empirical findings

In Chapter 6, the aggregate empirical results did not support the null hypotheses and hence, was rejected. The empirical findings showed evidence of positive wealth effects to the stockholders. However, the firm-specific level empirical findings showed mixed results. The empirical results revealed that some companies did relatively well while others did not. In Chapter 7 the study offered some plausible explanations for the empirical findings of the short term performance and long term performance of the OFDI related Indian corporates involved in M&As at firm-specific level.

The differing outcomes at firm-specific level were observed following the announcements of OFDI related M&As by Indian corporates. The study chose five companies and considered the secondary information released closer to the

announcements in order to understand the market reactions. The companies are Tata Steel, Hindalco, ONGC-OVL (all of which both had negative short-term market reactions but positive post-acquisition returns), DRL (which had positive results in both the short-term and long-term, more typical of the majority of the companies), and finally Wockhardt (which experienced negative market reactions in both the short-and long-term). Commentaries from financial analysts and commentators and media releases from the company concerning a mooted M&A may impact investors' assessments of the return and risk parameters for each company.

It is evident from the literature that firms are driven by asset-exploitation perspective when they possess the firm-specific advantages. They tend to expand and internationalise and use their scale of operations to the fuller extent. These are those corporates which possess firm-specific advantages in the form of superior technology, brands and extensive networks of channels of distributions in the mature markets and they try to expand the horizons of their markets. This is relevant to mature markets. According to Mathews (2006), asset exploitation is not appropriate for corporates from emerging markets because they often seek to invest abroad to secure a competitive advantage they currently do not possess. This is true from an Indian context and evident from the cases of Tata Steel and Hindalco. By combining their firm-specific skills with the competitive skills acquired through cross border mergers and acquisitions, the Indian corporates are able to compete in the international markets.

For instance, from an Indian context, the case of Tata-Corus Steel is a good example of an Indian corporate with asset-exploitation perspective. In fact, by acquiring Corus, Tata gained access to an established brand name, superior technology, and extensive net-works of distributors in the western markets. The empirical findings showing positive performance in the post-acquisition period indicates that Tata-Corus Steel obtained the expected synergies by making primary metal in markets close to raw materials (India) and establishing finishing (value-adding) facilities in the end-user markets (Athukorala). In other words, the acquisition of Corus enabled Tata to link their firm specific advantages (FSA) like labour intensive production, access to raw materials, accumulated managerial skills coupled with the advantages of access to the high margin markets and high technology in the west through Corus. In western markets it could therefore leverage the cost advantage of operating from India and product differentiation based on better technology from Corus in Asian markets. This acquisition enabled Tata to acquire competitive advantage in terms of local presence in high growth markets and compete with the international players with the synergies drawn from cost-efficiency due to the de-integrated operations, and also leverage the cost advantages in the mature markets. In the emerging markets it had the advantage of product differentiation occurring due to superior technology.

It is understood from the above case that asset-exploitation by the Indian corporates is possible only through acquiring firms in mature markets.

The asset-exploration perspective of outward foreign direct investments is appropriate to the emerging markets because they try to expand into the high-growth markets by acquiring strategic assets (i.e., technology, marketing, and management expertise) which are available in mature markets. The corporates from mature markets are not driven by the asset-exploration perspective because they already possess the required infrastructure for innovation and further development of new products. This perspective has more relevance to the corporates from emerging economies. As discussed in Chapter 7, the case of DRL is a good example of Indian corporates taking an asset-exploration perspective.

Summary of Empirical Findings

Short term perspective

The short-term results are positive. The AAR (event day) and CAR (event window) show evidence of statistical significance at 5% and 1% levels respectively. They support the rejection of the null hypothesis. This indicates that investors received the OFDI-related announcements by the Indian corporates positively. It signals the confidence investors have in management. The empirical findings of the study did not support the null hypotheses and hence the study rejected it.

It is interesting to note that the Indian corporates involved in OFDI related M&As settled their M&A deals through cash payments. The majority of them raised funds from international banks or through rights issue. In some cases they created

special purpose vehicles to raise funds from the country of the target company. With this, it is obvious that the Indian corporates demonstrated their abilities in the international capital markets and raised funds for large acquisitions, which reflects their reputation in relation to successful performance.

It is understood that the stockholders are convinced by the views expressed by the Indian corporates relating to OFDI related M&As and hence reacted positively to news of OFDI related M&As. The short run results indicate faith, hope and expectations vested by stockholders in the long run performance of the Indian corporates involved in OFDI related M&As.

Long term perspective

The empirical findings reveal that the Indian corporates have shown performance growth in the domestic market prior to acquisitions. But in order to operate in the international market the Indian corporates had to align with international brands. Therefore, the Indian corporates preferred the OFDI related M&As because they provided an opportunity to draw synergies from their firm specific advantages (FSA), such as labour intensive production, access to raw materials, accumulated managerial skills coupled with the advantages of the acquired/target companies through Brownfield investment strategies. This is in line with the prior findings of Makino (2002). With the intention to understand the OFDI strategies of Indian corporates, the study identified drivers behind their OFDI related M&As.

The success of OFDI related M&As has been assessed by their outcomes through the empirical results. The study indicates that the OFDI related M&As by Indian corporates enabled them to acquire the hitherto missing competitive ownership advantages and operate in the high-value growth markets of the mature markets. It is evident from the study results that there are positive wealth effects following the post-acquisition period. This indicates that the strategic moves of OFDI related M&As by Indian corporates are working, that managers have rightly undertaken the positive net present value projects and the stockholders approve of Indian corporates investment in OFDI related M&As.

8.6 Contribution of the study

The contributions of the study towards the literature are presented below:

New Empirics: This study is the first among Indian studies to consider the 36-month post-acquisition period to assess the performance of the Indian corporates involved in 30 OFDI related M&As. This study includes four mega deals in which the M&A transaction amount exceeds USD\$ 1000 million (1 billion). This study is comprehensive and includes companies from seven sectors: (1) Metals & Mining; (2) Oil, Gas & Energy; (3) Chemical/Fertilisers; (4) Food & Beverages; (5) Information Technology; (6) Health and Pharmaceuticals; and (7) Manufacturing & Processing.

New Methods: This study used different approaches – CAR, BHAR, Wealth Relative measure and Tobin's Q to assess the long-run performance and to ensure

robustness of the results. The study addressed the question: How successful are the Indian companies in creating value to the shareholder in the long run? In addition to reviewing the market reactions, explanations as to why the market reacted the way it did based on financial reports, company disclosures and other informed comments are proposed. The study supports the view that wealth effects cannot capture the full effect of M&As in the short term and hence, the long-run studies are significant to look into the consequences of the M&As. From an Indian context, this study is unique because it adopted a wider approach and considered quantitative data for assessing the outcomes and secondary data for explaining the variations in outcomes. In other words, this approach provided tentative theoretical explanations for observed differences. The theorisation opened up possibilities for future empirical research.

New Findings: The study identified the drivers behind OFDI related M&As by Indian corporates and provided plausible ways to interpret and contend the underlying factors. For this purpose the study adopted a firm-specific approach to identify the underlying factors behind OFDI related M&As of Indian companies based on secondary information. This approach enabled the study to synthesise the identified drivers behind OFDI related M&As by Indian corporates into two main classifications - asset exploration and asset exploitation. This simplified both the understanding of the corporate strategy and the explanation for the variations in outcomes. Coupled with the prior findings, identified drivers and empirical findings, the study presented the reasons why mature market OFDI related M&As

differ from the Indian context. Those reasons were context, situation and environment. The study also showed differing underlying factors behind initiating OFDI related M&As by considering the studies from mature markets and India. It has outlined reasons for the differences in the outcomes of cross-border M&As based on prior findings from mature markets and empirical findings of Indian corporates. Based on prior findings, the theory and secondary information, the study presented changes in the approaches taken by Indian corporates before and after the Indian Government's liberalisation reforms, in particular changes to OFDI policy.

Before policy liberalisation, Indian corporates were involved in expanding markets with the existing capacity in the developing countries whereas after liberalisation, they expanded into international markets by acquiring target companies from mature markets. Their scale of operations expanded. This helps in understanding the dynamics relating to corporate movements following the reforms. The study identified the contextual differences in OFDI related M&A strategies between the developed countries and India and contends that agency theory and CEO-hubris theory may not be appropriate in the Indian context given the shareholding patterns. The study also identified that the Indian public sector companies with the Government of India as majority stakeholder are slow to internationalise.

Of the thirty OFDI related M&A transactions considered in the study, only three OFDI related M&As belong to the public sector and they are driven by natural resource seeking as a prime motive.

8.7 Limitations of the study

The limitations of the study can be drawn from the scope of the study. The scope of the study is limited to examining the short-term market performance following the announcements of OFDI related M&As by the Indian corporates and examining the long-term market performance in the post-acquisition period following the OFDI related M&As by the Indian corporates. The study did not examine the shareholding patterns, characteristics of board of directors and other corporate governance variables like size structure and composition because they are out of the scope. Further examination of these variables will help in fully comprehending the results. The study could have looked into the details of capital structure changes following the acquisitions.

8.8 Suggestions for future empirical researchers

The following are some of the areas identified by the study while examining the outcomes of OFDI related M&As by Indian corporates. The study considers them worthwhile to be examined and tested by future empirical researchers.

- Corporate governance has been much emphasised in recent years. One could undertake a more comprehensive study to investigate the role of governance

variables in the research domain of M&As. Further the issues relating to the CEO hubris can be undertaken.

- One could undertake a study to examine if the mode of financing the M&A transaction and mode of settling the M&A transaction makes a difference.

- There could be an extension to this study to examine the changes in degree of risk and liquidity of an acquiring firm's shares subsequent to an acquisition event.

- One could undertake a study to examine the price pressure effect surrounding the announcement days and look into the issues of information effect versus price pressure effect.

- One possibility is to look into the implications to the country's economy as a consequence of internationalisation. How does internationalisation influence the dynamics of lending institutions, competition, prices, quality of services, innovation, society and the country in general?

- One can test the linkages between the policy changes, motives behind cross-border mergers and acquisitions and performance.

- With regard to methods, one can undertake and examine the empirical results by changing the length of the estimation period under different approaches and examine the implications on the outcomes.

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APPENDIX: A

Trends and Pattern of Indian Outward Foreign Direct Investment

The analysis of the changes related to overseas investment presented in Table Appendix 1 below brings out the fact that the Indian Government has eased the difficulty arising for Indian companies in undertaking OFDI. The big boost of Indian outbound investment since 2000 can be attributed to the policy changes initiated by the Government of India to encourage Indian companies to go cross border (L. Singh & Jain, 2009).

Table Appendix-1: Selected Changes to Indian Overseas Investment Policy

1	In 2004, Indian companies were permitted to undertake overseas investments by market purchases of foreign exchange without prior approval of RBI up to 100% of their net worth; up from the previous limit of 50%. An Indian company with a satisfactory track record is allowed to invest up to 100% of its net worth within the overall limit of US\$100 in a foreign entity engaged in any bona fide business activity from 2004.
2	In 2004, Indian companies in special economic zones are permitted to undertake overseas investment up to any amount without the restriction of the US\$ 100 million ceiling under the automatic route, provided the

	<p>funding is done out of the Exchange Earners Foreign Currency Account balances. The three years profitability condition requirement was removed for Indian companies making overseas investments under the automatic route.</p>
3	<p>In 2004, overseas investments were allowed to be funded up to 100% by ADR/GDR proceeds up from the previous ceiling of 50%. Further, an Indian firm that had exhausted the limit of US\$100 million in a year could apply to the RBI for a block allocation of foreign exchange, subject to the terms and conditions as may be necessary.</p>
6	<p>In 2004, overseas investments were opened up to registered partnership firms and companies that provided professional services. The minimum net worth requirement of Rs. 150 million for Indian companies engaged in financial sector activities in India was removed for investment abroad in the financial sector.</p>
7	<p>From 2004 onwards, Indian firms are allowed to undertake agricultural activities, which were previously restricted, either directly or through an overseas branch; and are now permitted under the automatic route.</p>
8	<p>In 2004, the RBI further relaxed the monetary ceiling on Indian companies' investment abroad. Indian companies can now invest up to 100% of their net worth without any separate ceiling even if the</p>

	investment exceeds the US\$100 million limit. Furthermore, Indian companies can now invest or make acquisitions abroad even in areas unrelated to their business at home.
9	In 2005, banks were permitted to lend money to Indian companies for acquisition of equity in overseas joint ventures, wholly owned subsidiaries (WOS) or in other overseas companies as strategic investment.
10	In 2006, the automatic route of disinvestments was further liberalised. Indian companies are now permitted to disinvest without prior approval of the RBI in select categories. To encourage large and important exporters, proprietary/unregistered partnership firms were allowed to set up a JV/WOS outside India with the prior approval of RBI.
11	In 2007, the ceiling of investment by Indian entities was revised from 100% of the net worth to 200% of the net worth of the investing company under the automatic route of overseas investment. The limit of 200% of the net worth of the Indian party was enhanced to 300% of the net worth in June 2007 under automatic route (200% in case of revisited partnership firms). In September 2007, this was further enhanced to 400 % of the net worth of the Indian party.

12	The Liberalized Remittance Scheme (LRS) for resident individuals was further liberalised by enhancing the existing limit of US\$ 100 per financial year to US\$ 200 per financial year (April-March) in September 2007.
13	The limit of portfolio investment by listed Indian companies in the equity of listed foreign companies was raised in September 2007 from 35% to 50% of the net worth of the investing company as on the date of its last audited balance sheet. Furthermore, the requirement of reciprocal 10% shareholding in Indian companies was dispensed with.
14	The aggregate ceiling for overseas investment by mutual funds registered with SEBI was enhanced from US\$ 4 billion to US\$ 5 billion in September 2007. This was further raised to US\$ 7 billion in April 2008. The existing facility to allow a limited number of qualified Indian mutual funds to invest cumulatively up to US\$ 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI, would continue. The investments would be subject to the terms and conditions and operational guidelines as issued by SEBI.
15	Registered trusts and societies engaged in manufacturing/educational sector were allowed in June 2008 to make investment in the same sector(s) in a Joint Venture or Wholly Owned Subsidiary outside India,

	with the prior approval of the Reserve Bank.
16	Registered trusts and societies that have set up hospital(s) in India have been allowed since August 2008 to make investment in the same sector(s) in a JV/WOS outside India, with the prior approval of the Reserve Bank.

Source: RBI (2009); Jha (2006)

APPENDIX: B

1) Tata Steel Acquires –Millennium

As per the Tata Company's internal report, April 2006, Tata Steel has made strategic moves in order to capitalise the favourable environment for steel in the global market through acquisition moves and by positioning itself in strategic locations. Tata Steel's acquisition of Millennium in 2004-2005 is an example of how the company is implementing this growth strategy.

Managing director B Muthuraman explains the company's strategy in pragmatic terms: "In my view, globalisation is a method by which you put the right part of the value chain in its right place in the world, and link it up to finishing facilities in places where customers exist, and primary manufacturing facilities in places where manufacturing is competitive." The strategy termed as Asian beachhead behind the acquisition of Millennium Steel is to grow from domestic player to East and South East Asian market player. In other words, the acquisition of these two deals marked an effective transition for Tata Steel from being a leading domestic player to a strong regional player in the East and South East Asian markets. The company's footprint now extends to every market in the region, big and small.

The acquisition of Millennium Steel, Thailand's dominant steel producer, consolidated Tata Steel's gains. Millennium's three operating units give the company a cumulative capacity to produce 1.2 million tonnes of steel per annum through the electric arc furnace route. Along with a long products rolling capacity of 1.7 million tonnes a year, geared towards the construction and automotive sector, Millennium provides Tata Steel strategic space in the heart of the ASEAN region, enhancing its market position in South East Asia.

2) Tate Tea acquires Tetley

When Tata Tea acquired the Tetley group last February, it was hailed as a landmark deal - the coming together of a company that was very strong on the tea production side and the other very strong on the marketing side. According to Chairman, Krishna Kumar, "I see us fusing all these entities into one super global company - maybe with a listing on the New York Stock Exchange, the London Stock Exchange, the Bombay Stock Exchange and so on - seamlessly operating as one entity, deriving all the efficiencies of integration and imparting the necessary aggression in the marketplace to gain market share. It will be a very successful global tea company, owned by the Tata, an Indian company and very successfully run across the globe," he added.

The Tetley group has a strong marketing network in 35 countries across the world while Tata Tea has a strong production base in India and Sri Lanka. It is also looking at acquiring tea gardens in Africa. In addition to this, it is looking at large scale sourcing of tea from Bangladesh. "The synergies between the two companies are very strong and bringing them together does make sense. But this

is only at a conceptualisation stage. It may take a while to happen," Krishna Kumar told The Economic Times. Tetley blends, packs, markets and distributes tea products, principally in the UK and the US. It is presently the second largest tea bag concern in the world, producing approximately 20 billionn tea bags per annum (February 01, 2001 | The Economic Times).

3) United Spirits acquires White & Mackay

United Spirits Limited, the flagship of The UB Group acquired on May 16th, 2007, a hundred percent of Whyte & Mackay for Â£595m. Whyte & Mackay is a leading distiller of Scotch Whisky, owning brands including The Dalmore, Isle of Jura, Glayva, Fettercairn, Vladivar vodka and the eponymous Whyte & Mackay blended Scotch. The company also owns several other Scotch Whisky brands such as Mackinlays, John Barr, Cluny and Claymore amongst a host of others.

Whyte & Mackay is a key strategic acquisition for The UB Group and its chairman Dr Vijay Mallya, because of its premium brands and perennial source of Scotch Whisky. For instance, the Invergordon Distillery near Inverness is one of the largest Scotch Whisky distilleries with a capacity of producing 40 million litres of alcohol per annum. This production resource will provide United Spirits with a perennial source of Scotch Whisky to meet its global requirements in the future. In addition, Invergordon will remain a key strategic provider of bulk Scotch Whisky to industry majors.

Dr Vijay Mallya, chairman of United Spirits Limited said “We have a large and growing business in India and have made recent forays into Russia and China. United Spirits have created some of the world’s largest brands of drinks. Until today, the only missing link in our portfolio has been Scotch and due to the shortages and rapidly increasing prices of Scotch Whisky, we needed a reliable supply source to secure our future considering that we use scotch in our Indian blends. The potential for premium Scotch Whisky in India is enormous and, with the acquisition of Whyte & Mackay we now have a strong portfolio of internationally recognized brands that we will immediately introduce into the Indian market and use our strong distribution muscle fully to our advantage. In addition we now have access to international distribution and can look forward to exporting our brands from India.” (Source: May 16, 2007, TheBusinessEdition.com News).

4) Tata Steel Acquires Corus:

On January 31, 2007, Tata Steel Ltd, one of the leading producers in India acquired the Anglo-Dutch steel producer Corus Group Plc. for £13.7 billion. The acquisition was the biggest overseas acquisition by an Indian company. Tata Steel emerged as the fifth largest steel producer in the world after the acquisition. The acquisition gave Tata Steel access to Corus’ strong distribution network in Europe. Tata Steel outbid Brazilian Steelmaker Companhia Siderurgica Nacional (CSN).

Tata Steel's acquisition of Anglo-Dutch steelmaker Corus does make strategic sense. The move is in line with its de-integration model that involves making primary metal in markets close to raw materials and establishing finishing (value-adding) facilities in the end-user markets. The synergies expected of this acquisition would be in the areas of procurement of materials, shared services and operational efficiencies. Further, this deal links lowest cost producers of steel, raw materials and growth makers (Tata) to high margin markets and high technology in the west (Corus). The cost advantage of operating from India can be leveraged in western markets, and differentiation based on better technology from Corus can work in Asian markets. (Source: Business Line, Business Daily from The Hindu Group of publications, Friday, February 02, 2007 and Wednesday, May 13, 2009 ePaper).

5) Suzlon Energy:

Netherlands AE – Rotor Holding BV, a subsidiary of Pune-based (India) Suzlon Energy, the world's sixth largest wind turbine maker, acquired Belgium's Hansen Transmissions International NV for € 465 million (US \$ 565 million) in cash. Hansen is the world's second largest manufacturer of wind turbine gearboxes with capacity to produce 3,600 MW gearboxes every year. Hansen is adding another 700 MW capacity at its two plants in Belgium.

Tulsi R Tanti, Chairman & Managing Director, Suzlon Energy said,

“The acquisition of Hansen gives us technological leadership and will make Suzlon the leading integrated wind turbine manufacturer in the world. Although

the company will run as the independent business unit, the acquisition of Hansen will allow us to integrate gearbox technology into the total turbine solution enabling a more reliable and a more competitive product in the market place. We find Hansen's technology, products and production facilities to be of the highest quality. The company has an excellent management team and over a period of time we will work with them in developing supply chain synergies, expanding capacity in new emerging markets in Asia. Hansen's strong presence in the industrial gearbox is also an important dimension of the business and we see a good opportunity to strengthen it further."

Describing the acquisition as a significant milestone, Girish R Tanti, Director International Business Development and HR, Suzlon Energy, said,

"Hansen is an efficiently run business, the quality of team and man power has been most impressive. Hansen has a healthy order book position for the next two years and we expect the business to be managed in the same manner as the management has very ably done over the last couple of years."

Aditya Sanghi, Country Head investment banking, YES Bank said, " With this acquisition Suzlon has truly emerged as a global player with significant market presence, manufacturing base and R&D centers across the North America, Europe, India, China, South Korea and Australia. With a presence across the entire turbine technology chain, we see Suzlon becoming further cost competitive and providing efficient and robust wind energy solutions to its customers."

(Reported by Suzlon and news sources and company. www.suzlon.com and www.hansentransmissions.com).

6) ONGC Videsh Ltd acquires Petrobas and Great Nile oil project

Over the years, India became heavily dependent on imported crude oil. For the growing Indian population and developing Indian industry, the rising cost of crude was becoming a burden. Oil & Natural Gas Corporation Ltd (ONGC) was one of the leading exploration & production (E&P) companies in India. The domestic competition to ONGC grew after liberalisation policies of the Indian Government in 1991. The government prepared a plan called “India Hydrocarbon Vision 2025” and suggested ONGC go global. The competition in domestic business and the hike in oil prices motivated ONGC to create ONGC Videsh Ltd (OVL) for overseas operations. By 2006, ONGC was present in 14 countries and had 24 ongoing projects.

OVL had set a target of producing 60 million metric tonnes per annum (MMTPA) in 2025, but its output in 2006 was only 6.34 MMTPA. Its strategy for expansion was based on three entry methods - (a) wholly owned projects acquired during bidding of oil blocks in different countries, (b) production sharing contracts and (c) participation interests. It had established presence in major oil producing countries like Russia, Qatar, Libya, Iraq and Iran. Even then, the output from major projects was insufficient to support Indian crude requirements. To overcome the limitations, OVL had initiated expansion through acquisition of new projects during 2006.

ONGC Videsh Ltd (OVL) has signed a Memorandum of Understanding (Mamdani & Noah) with Brazil's Petrobras for strategic co-operation and participation in exploration and production (E&P) of hydrocarbons on land and in shallow and deep waters.

Brazil's Petrobras and State-owned ONGC would partner in offshore exploration and production activities in India and Brazil. Both the companies will jointly bid for offshore exploration blocks in the forthcoming New Exploration Licensing Policy (NELP) rounds in India and Brazil's ninth round of bidding slated to be held in the second half of 2007. Speaking to newsmen at the sidelines of the Petrotech-2007, G Estrella, Director (Exploration and Production) of Petrobras said, "Petrobras and ONGC have formed a joint working group to explore opportunities to collaborate in E&P activities in India and Brazil."

On the possibility of picking up stake in ONGC's deepwater find in Krishna-Godavari basin, Mr Estrella said that the working group would explore every possibility of partnering ONGC in exploration and production of oil and gas and other emerging energy sources like gas hydrates. Petrobras produces roughly two million barrels of oil – the bulk of which is produced in Brazil - and is a major player in the deep and ultra-deepwater exploration segment. The company has already paved the way for ONGC Videsh Ltd, the overseas arm of ONGC, to acquire a stake in BC-10 discovered oilfield in Campos Basin of Brazil. "We are interested in exploring hydrocarbon in India and preparing the roadmap for participation in NELP-VII will be a priority for the joint working group," he said. ONGC will be the Petrobras's main partner in NELP-VII, he added. On ONGC's

foray in Brazil, he said, "we have already roped in OVL in Brazil and will jointly bid in the ninth round bidding in 2007". (Source: Business Line, Business Daily from The Hindu Group of publications, Saturday, January 20, 2009, ePaper).

7) Ranbaxy Acquires Terapia

Ranbaxy acquired 96.7% of Terapia from Advent International for US \$324m. Terapia is the largest independent generic company in Romania. Established in 1921, it has a strong brand name and a consistent track record of growth and profitability. Terapia is an integrated, commercially focused pharma company which has a broad portfolio and deep new product pipeline, excellent R&D capabilities, world class in-house bioequivalence facilities, low cost manufacturing, and strong distribution network that includes the largest and most powerful generic sales force in the Romanian pharmaceutical market.

For Ranbaxy, Terapia delivers strategic Romanian and pan European synergies helping to unleash new opportunities. Ranbaxy will provide Terapia with additional products to launch in the domestic market at very cost competitive levels, thereby lowering costs and delivering value to both consumers and the domestic healthcare budget. The combination of Terapia with Ranbaxy's existing Romanian activities creates the number one generics company in the Romanian market and will additionally boost Ranbaxy's presence in the fast growing commonwealth of independent countries (CIS) like Russia, formerly Soviet Union, Kazakhstan, Tajikistan, Azerbaijan and Ukraine. Ranbaxy Laboratories

Limited (Ranbaxy) and Terapia S.A. (Terapia) of Romania announced today that they have signed a definitive agreement providing for the acquisition of Terapia by Ranbaxy. The deal will combine the strengths of the two premier generic companies and will allow Ranbaxy to leverage its expanded base in the rapidly growing Romanian pharmaceutical market, across the European Union and the CIS markets.

Commenting on the acquisition, Malvinder Mohan Singh, CEO & Managing Director, Ranbaxy Laboratories Limited said, “Terapia represents exceptional value for our stakeholders. Within the Ranbaxy fold, it unleashes multiple synergies of product development, product flow, low cost manufacturing, proximity and access to high growth markets, in country presence and sound fundamentals while being EPS accretive to the group immediately. The transaction is compelling and furthers us on our path to becoming a top five global generic company.”

Commenting on the deal, Joanna James, Managing Director Central Europe at Advent International said, “We have been strategic investors in Terapia and it has been our endeavour to add value to the entity at every point in the value chain. With consolidation imminent in the pharmaceutical industry, scale and global presence will be critical. We believe Ranbaxy is best equipped to take the company forward into its next phase of growth.”

Peter Burema, President, Ranbaxy, Europe, CIS, Africa & Latin America, said, “Ranbaxy’s acquisition of Terapia, the largest independent generics player in

Romania, gives it a platform to further leverage its primary care presence across the European Union and the CIS markets through a strong product basket and future pipeline, in addition to Ranbaxy's own products and pipeline. The product portfolio of the two companies is highly complementary.”

Welcoming the entire Terapia team on board, Malvinder Mohan Singh added, “Together we are best placed to carve a name for ourselves amongst the best generic pharmaceutical companies in the world.”

Romania is the fastest growing pharmaceutical market in the Central & Eastern European (CEE) region with an approximate annual growth of 34% from 2002 to 2005 versus the growth of 24% for the region. The high growth is coupled with a large market opportunity, as Romania is the second largest country by population in CEE. Romania is amongst countries with an increasing per capita expenditure on pharmaceuticals. This provides significant head-room for the company to grow. Romania is also scheduled to join the European Union beginning January 1, 2007, opening up additional possibilities for market expansion. Since establishment of its operations, Romania has been one of the group's fastest growing markets. This track-record and the continued strong outlook for the market, led to a decision to look for acquisition opportunities in the market to establish a higher level of sales and to become a leader in the attractive Romanian generics market.

Terapia enjoys high brand awareness locally and regionally as a result of its strong sales & distribution setup. It has the largest field force amongst all generic

pharmaceutical companies with a full coverage of general practitioners (GPs) and specialists. They also cover all of the 4000 pharmacies and 450 hospitals in the country. The combined entities will have the largest field force of all pharmaceutical companies, both originators and generic companies. Terapia distributes approximately 65% of its domestic sales through its own integrated distribution unit, a unique asset allowing it to better ensure availability of its products at pharmacies and to capture a greater share of the product value chain in comparison to its peers.

Ranbaxy gains access to Terapia's product basket of 157 marketing authorizations with a strong focus on the fast growing segments of CVS, CNS & musculoskeletal therapeutic segments. These presently comprise 71% of the company's domestic sales. Enalapril, Aspenter (Acetylsalicylic acid), Diurex 50 (Spironolacton + Furasemidum Combination) & Pentoxi retard (Pentoxiflin) are some of Terapia's successful products in the domestic market.

8) Opto Circuits acquires EuroCOR GmbH

Continuing its goal of aggressive growth and diversification in the healthcare segment, Opto Circuits (India) Ltd. (OCIL), India's leading manufacturer of non-invasive healthcare equipments based in Bangalore, has completed the acquisition of EuroCOR GmbH, a company that designs and manufactures various kinds of stents in Germany.

EuroCOR manufactures cardiac and peripheral stents of various types, including drug eluting coronary stents used in critical cardiac care. It is one of the largest

manufacturers of stents. By acquiring EuroCOR, OCIL gets to access the existing as well as potential market for stents globally.

Announcing the acquisition, Vinod Ramnani, said: “This acquisition of EuroCOR gives us a strong foothold in the global arena for stents. The total global market for stents was valued at \$6 billion (Rs. 27,750 crore) in 2004 and is expected to rise at \$10 billion (Rs. 46,250 crore) by 2008. Whilst we are barely scratching the surface now, we expect that the strong R&D base of EuroCOR will lead us in the direction of greater market share and also better margin business. This acquisition is another milestone in the history of the growth of Opto Circuits, and will help improve shareholder value.”

Said Dr. Michael Orłowski, “We have a presence in more than 26 countries worldwide. Although we are present in India, this acquisition by Opto Circuits gives us a great opportunity to access the vast potential offered by this country. We are excited by the prospect of tapping latent potential in developing countries.” EuroCOR’s stents have CE approval and have found very rapid acceptance worldwide. The company is in the process of applying for food and drug administration (FDA) and other major approvals necessary for selling in the US. EuroCOR currently sells its products in over 26 countries around the world. EuroCOR’s current order book is to the tune of €1.7 million (Rs. 9.26 crore), and it is expected to report a top line of approximately €4 million (Rs. 21.78 crore) in the current fiscal year. EuroCOR is projecting a topline of €10 million (Rs. 54.46 crore) for its next fiscal year.

Summing up the deal and its implications for OCIL, Vinod Ramnani said: “We are confident of promoting EuroCOR products in the Indian subcontinent, Far East, Europe, Middle East, Central & South America. The size of the Indian market for EuroCOR’s products is expected to continue to expand at double-digit rates. We are ideally positioned to achieve a 10% targeted market share for such products in the coming years.” Sourced: Adfactors Public Relations Pvt Ltd (Published on Tue, Dec 13, 2005 at 18:30 | Source : Moneycontrol.com).

9) Hindalco Acquires Novelis

Mumbai Feb 11 Hindalco Industries agreed to acquire US-based aluminum products maker Novelis Inc for \$6 billion in an all-cash deal. The deal was announced at a news conference on Sunday by Kumar Mangalam Birla, chairman of the AV Birla group. The deal reiterates corporate India's new appetite for international acquisitions, and came barely a fortnight after the Tata-Corus deal, which made Ratan Tata the toast of Indian industry. "It is a significant event for Hindalco and the AV Birla Group," said Birla. This almost doubles Hindalco's turnover in one fell swoop, he said, adding that it catapults the Group right to the threshold of the Fortune 500 group of companies. Hindalco will pay \$44.93 in cash for each outstanding common share of Novelis, roughly 15% premium to the market price.

The company has 'ring-fenced' itself to handle a possible "superior" counterbid, said Debu Bhattacharya, Managing Director of Hindalco. "Theoretically there is always room for another bid, it is always possible," said Birla. "But we don't

expect that to happen." The party that makes a "superior" counterbid has to pay around \$100 million to Hindalco as "break-fee," making it a trifle expensive. Assuming that the party has to pay \$2-3 more per share to better Hindalco's deal, the net increase with the break-fee could mean up to \$5 more per share than our bid, said Mr Bhattacharya. The agreement requires 66.66 per cent of Novelis shareholders present and voting to tender their shares. Otherwise, Hindalco will walk away. If this condition is satisfied, the remaining one-third of shareholders will be "squeezed out," (will have to sell to Hindalco). Novelis is a widely held company, its shareholders being largely hedge funds and institutional investors. The company operates in 11 countries, has 36 operating units and 12,500 employees. Its revenues stood at \$8.5 billion in 2005. Novelis posted net loss of \$102 million during the third quarter of 2006 (the calendar year is the company's fiscal year).

For the AV Birla Group, the acquisition marks its increased internationalisation. Post-acquisition, over 50 per cent of the group's business could come from operations outside India, which is currently at 30 per cent. Also, 20 per cent of the group's total workforce would also be based outside India, said Birla, (Source: Business Line, Business Daily from The Hindu Group of publications, Monday, February 12, 2007, ePaper).

10) M&M acquires German forgings firm

Mumbai, Jan 29: Mahindra & Mahindra Ltd, through its subsidiary Mahindra Forgings Global Limited based in Mauritius, has acquired 90.47% stake in German forgings company Schoneweiss & Co. GmbH., for an undisclosed sum. Schoneweiss is a family-owned German company with over 140 years of experience in the forging sector, and is one of the top five axle beam manufacturers in the world. The company specialises in suspension, power train and engine parts, and has a forging capacity of 50,000 tpa and turnover of Euro 90 million (for CY 2005). Its top customers include the DaimlerChrysler Group, MAN, Scania and Volkswagen. Schoneweiss has three manufacturing plants in Hagen and Gevelsberg, Germany with a total manpower of 550 people.

Anand Mahindra, vice chairman & managing director, Mahindra & Mahindra, said, "This acquisition creates for us a strong European base as it is fully harmonious with our existing presence in Germany through Jeco AG. We are now well on the path to capitalise on and consolidate our position towards becoming a globally significant player in the forgings business." Kotak Investment Banking, Mumbai and M&A International GmbH, Kronberg, Germany advised Mahindra & Mahindra while InterFinanz, Dusseldorf acted as consultants for the Schoneweiss Group, (Source: The Financial Express, Tuesday, January 29, 2007).

11) Tata Chemicals Acquires Brunner Mond and Magadi

Tata Chemicals Limited acquisition of the Brunner Mond Group brings together companies with long and proud histories to form the third largest soda ash producer in the world embracing both the major soda ash technologies - natural

and synthetic. The combined output from the current Tata, Brunner Mond and Magadi plants stands at 2.6m tonnes, a figure that will rise to 3m tonnes when the project to double the capacity at Magadi Soda in Kenya comes on stream later this year.

For Tata Chemicals this transaction represents another step towards building a global soda ash business. The combined business - the third largest soda ash business in the world will expand geographies across Europe, Asia and Africa besides strengthening the market leadership position in India. As per the Martin Keighley, the Managing Director (Europe), the expected benefits from the new alliance and ownership includes: maximising the mutual learning between the companies can bring to each other, wealth of technological and market expertise to share and the great experience and success in the management of change and the driving of business improvement initiatives (Source: www.Brunnermond.com & Brunner Mond News).

12) Sun Pharma acquires Hungarian plant from Valeant

Sun Pharmaceutical Industries, an Indian drug maker, has purchased raw materials and a dosage form manufacturing facility in Hungary from Valeant Pharmaceuticals. According to Dilip Shanghvi, Sun Pharma's managing director, quoted by In-PharmaTechnologist.com, facilities in Eastern Europe offer low operating costs and, at the same time, easy access for expansion to the large pharma market of Western and Central Europe. As Hungary became an EU member last year, Sun Pharma will benefit from free movement of goods in the

EU and from involvement in the rapidly growing pharma markets of the “new” EU member states, which record much faster expansion than “old” EU members.

The move is designed to complement Sun Pharma’s European entry strategy as its UK Medicines and Health Products Regulatory Agency (MHRA) approved its plant in India, and are expected to allow for a quick product roll out. (www.pharmapoland.com).

13) Lupin acquires Kyowa

Kyowa has a significant presence in the fixed-rate treatment Diagnosis Procedure Combination (DPC) based payment system in Japan hospitals sector in Japan. Injectable products enjoy a significant usage in the DPC hospital segment, and generic injectable penetration is slated to grow significantly in future. There are currently over 1,400 DPC hospitals in Japan, covering over 35% of all hospital beds nationwide, and a market size of \$11 billion, says Lupin.

In a separate development, Kyowa has entered into a strategic alliance involving comprehensive operational support to be provided by IH’s site management organization (SMO) subsidiary Irom Co for clinical studies conducted by Kyowa for the Japanese market. Irom is known as the pioneer of the SMO business in Japan, and the alliance seeks to utilize Irom’s expertise to support Kyowa. Lupin’s Japanese subsidiary, Kyowa Pharmaceutical Industry Co., Ltd. is amongst the fastest growing generic pharmaceutical companies in Japan with sales of JPY 11.6 Billion for the fiscal year ended March 2011, contributing 11% of Lupin’s consolidated revenues. Kyowa is a market leader and has strong

presence in the Neurology, Cardiovascular Gastroenterology and Respiratory segments. The company covers 94% of the 1,400 psychiatric hospitals in Japan.

Commenting on the acquisition, Vinod Dhawan, president, Asia Pacific, Middle East, Africa and Latin America at Lupin, said: “Japan is a growth market of strategic focus for Lupin. IP’s strong presence in the DPC hospital segment in Japan, through its line of injectable products, is an ideal fit with our existing oral business portfolio in Japan. The acquisition will not only strengthen our presence in the Japanese market but would also provide for a stronger growth footprint in this priority market.”

Mr Dhawan said Lupin expects sales at Irom Pharma to reach \$75 million in the current fiscal year ending March 2012. The combined sales of Kyowa and Irom Pharma would reach \$230-\$240 million in fiscal 2012, raising Japan's contribution to Lupin revenue to 15% from 12% at present, he noted. Ray Tsunoda, president and representative director of Kyowa, added: “This acquisition will allow Kyowa and IP to leverage their strengths and competencies to create meaningful synergies that would augment Lupin’s growth in the Japanese generics market. The success which Kyowa has experienced after becoming a part of the Lupin family will certainly be shared by IP.” (Source: the pharma letter www.pharmaletter.com).

14) Tata Motors acquires Jaguar and Land Rover

Ratan Tata, Chairman of Tata Motors said, "This is a momentous time for all of us at Tata Motors. Jaguar and Land Rover are two iconic British brands with worldwide growth prospects." He continues to say that both British brands will retain their own unique identities and that Tata will give its full support in order to grow and prosper. Land Rover and Jaguar employ about 16,000 people. Jaguars are manufactured at Castle Bromwich in the West Midlands and Halewood on Merseyside on a production line shared with Land Rover, which also manufactures at a plant in Solihull.

Tata, which owns the Anglo-Dutch steel maker Corus, and Tetley Tea, is the bidder favoured by the trade unions, but they will be looking for assurances over investment, plant and job security. At the Geneva motor show this month, Tata's head, Ratan Tata, said he planned to keep "the image, touch and feel", of the two marques. "There is no reason to tinker with the brands. Our challenge is to make them grow." Jaguar and Land Rover are part of Ford's premier automotive group, which last year sold the Aston Martin marque for £450m to a Middle East-backed consortium. Under Tata, Jaguar and Land Rover are expected to stick to existing business plans for the next few years, with the headquarters operation remaining in Britain. Acquisition of the UK marques will mark a significant expansion of the Indian company's car-making capability, which includes models such as the Indica, Indigo and Sumo Grande, (Source: Friday 28 March 2008, The Guardian).

15) Tata Motors Acquires Daewoo

MUMBAI, FEB. 18. Tata Motors announced and signed the Investment Agreement for the acquisition of Daewoo Commercial Vehicle Company Ltd. (DWCV) for a total price of 120 billion Korean won (about \$102 million or Rs. 465 crores). Ratan Tata, Chairman, Tata Group, said, "This is indeed a major step for Tata Motors and a milestone for the group in its quest for globalisation. I am confident that both companies will derive considerable benefits from this agreement."

DWCV is Korea's second largest heavy truck maker with a modern plant in Kunsan that has an annual production capacity of 20,000 medium and heavy vehicles. It enjoys a market share in excess of 25 per cent in the Korean heavy truck segment. Both Tata Motors and DWCV believe that they can extract significant synergies in several areas such as marketing, research and product development and other operational areas.

Ravi Kant, Executive Director (Commercial Vehicle Business Unit), Tata Motors, said, "The complementary product range of the two companies and strengths in product development and international marketing will open new opportunities for both companies. We are excited at the possibilities of this co-operation and will now work towards a successful integration with the commitment of the management and the dedicated workforce of DWCV." Tata Motors' capacity is two lakh units annually and while it makes vehicles in the 200 hp range, the Daewoo facility can make vehicles in the 200-400 hp range (Source: Thursday, Feb 19th, 2004 - The Hindhu).

Wockhardt acquires Negma Labs

The Mumbai-based Wockhardt Limited announced their fifth buyout in Europe by acquiring French pharmaceutical company Negma Laboratories in all-cash deal worth \$265 million (around Rs 1090 crore). The transaction is valued at 1.8 times the sales and 9.7 times the EBITDA of Negma Laboratories. France is the third largest pharmaceuticals market in Europe after Germany and the UK. With the buyout, Wockhardt says it will be the largest Indian pharmaceuticals company in Europe with more than 1500 employees. Negma Labs, the fourth largest independent pharmaceuticals group in France with sales of \$150 million, owns a portfolio of 172 patents and has a few molecules under pre-clinical stages of development. The company has various drugs belonging to the osteoarthritis, rheumatology and hypertension segments.

Earlier, Wockhardt had bought Wallis and CP Pharmaceuticals in the UK, Esparma in Germany and Pinewood Labs in Ireland. Habil Khorakiwala, the chairman of Wockhardt, said, "The acquisition will allow us to extend our patented portfolio to other European markets. Further, it will provide us the right entry vehicle to the French generics market, valued at \$2 billion. With this acquisition, we are on the fast track to achieve our corporate strategy of \$1 billion in turnover by 2009."

An analyst from IDBI Capital said that Wockhardt's entry into the French market was well-timed. The growth rate in the major European pharma markets like the UK and Germany is now stagnant due to high competition and state intervention.

Therefore, it is better to focus on other emerging markets like France, Spain and Italy. The revenues from the conventional markets are eroding. An early entry into the other emerging markets will reduce competition as well as bring in better prospects, he added. With the Negma acquisition, Wockhardt's European business will account for more than 60% of the company's total revenues. Wockhardt, which at present has a portfolio of 130 products in the European market, will launch 24 more drugs in Europe next year. With this buy, the company will have four manufacturing facilities in Europe. (Source: 3rd May, 2007, the Financial Express).

VSNL Acquires Teleglobe International

Videsh Sanchar Nigam has entered into an agreement to acquire Teleglobe International Holdings Ltd for \$239 million (over Rs 1,000 crore). This acquisition will put VSNL among the top three companies in the world in terms of international wholesale services, and make it a leading player in terms of telecom services encompassing the wholesale, enterprise and retail sectors, said Mr N. Srinath, Director, VSNL. The Tyco Global Networks (TGN) buy made VSNL the biggest supplier of submarine cable connectivity in the world. Teleglobe's wholesale voice/voice-over-Internet-protocol and Global Tier-1 IP network can be overlaid on the TGN network to provide value-added services to enterprise customers across the globe, he said. (Teleglobe made an important acquisition in VoIP-leader ITXC Corp in May last year).

Teleglobe has an extensive global network that reaches more than 240 countries and territories with advanced voice, data and signalling capabilities and ownership interests or capacity in more than 80 sub-sea and terrestrial cables, said a statement from VSNL. Through Teleglobe, VSNL will be able to access more than 200 direct and bilateral agreements with leading voice carriers, many of them incumbent carriers within their countries or large international wireless service providers. In addition, VSNL also gains an international workforce. As a global operator, VSNL requires scale and acquisitions to facilitate this, said Mr Srinath. “VSNL’s vision is to become a leading global player in wholesale voice and bandwidth and enterprise data services. This agreement, coupled with the TGN acquisition and recently announced plans to expand into new markets, will move us closer to the size and network breadth needed to achieve this goal.” This strategic transaction creates a complementary combination of Teleglobe’s extensive wholesale voice VoIP/TDM network, Global Tier I IP Network, and deep customer base with VSNL’s integrated telecom services to strengthen its position as a leading international telecoms provider, (Source: Business Line-Internet edition: Financial Daily from THE HINDU group of publications, Tuesday, Jul 26, 2005).

Sasken Communication acquires Botania Hightech

Sasken Communication Technologies Ltd (Sasken), a pioneer in the telecom R&D and support space, today announced the 100% acquisition of Finland based Botnia Hightech Oy (Botnia), a leading provider of wireless R&D and testing services. Sasken will pay € 35.5 million (Euros Thirty Five point five million) for

Botnia in an all cash deal. Sasken is a global provider of software and support services for the communications industry. Sasken works with Network OEMs, semiconductor vendors, Terminal Devices OEMs and Operators across the world. Botnia Hightech is a globally operating wireless technology company. The core business areas are hardware, software and mechanical design and testing related to these areas. The company improves the competitiveness of the customers by accelerating their R&D and testing processes to achieve leading products.

Based at Kaustinen, Finland, Botnia Hightech is an important supplier of Hardware, Software, Mechanical Design and Testing Services to leading mobile handset vendors. Botnia's services can be applied in R&D projects, subprojects, tester design, as well as in cost reduction. They also offer tailor-made turnkey solutions. Botnia Hightech Oy's main operations are in Finland with additional operations in Denmark and Germany. For the year ended April 30, 2006, Botnia reported revenues of € 17.7 million with a Profit After Tax of € 2.9 million.

Sasken has been a leader in providing R & D and support outsourcing services to companies across the communications value chain. This acquisition is expected to help Sasken scale its offering portfolio faster. Sasken has been focusing on a strategy of deepening relationships with Tier 1 customers and Botnia's customer base will further complement the same. The acquisition also gives Sasken a presence in Finland, which will add to its global development centers in Mexico and China, apart from its centers in multiple locations in India.

Rajiv Mody, Chairman of the Board and Chief Executive Officer, Sasken said, “We are tremendously excited by the opportunities that this deal opens up for both Sasken and Botnia. Europe leads the world in the development of wireless technology. Botnia’s European presence and their expertise combined with Sasken’s global reach and India based development centers will enable us to offer a compelling portfolio of value added solutions to our customers across the globe.”

According to Matti Paasila, Chairman of the Board of Botnia, “Botnia Hightech has established itself as a successful high-tech company that is a household name in Finland. In Sasken, we have found an ideal partner to build on this strong foundation and become a global leader in the wireless communication space. We expect growth in our Finland business, as well as to gain the ability to serve global customers through this partnership. The cultural affinity between our two organizations will be the key factor in the success of our joint endeavours”. (Source: Press release by Sasken Global -July 26, 2006).

Videocon acquires Thomson SA (CRT Business)

Videocon Group on Tuesday announced the acquisition of French media services and technology major Thomson SA's colour picture tubes manufacturing business, for Euro 240 million (Rs 1,200 crore), through its offshore entity — Eagle Corporation Ltd. Under the agreement, Videocon will acquire Thomson's manufacturing facilities in China, Mexico and Poland, V N Dhoot, Videocon's CMD, told reporters. For Videocon, which makes TVs, microwave ovens,

refrigerators, ACs and washing machines, the purchase allows it to expand outside its home market, where it's facing competition from Korean electronic makers LG Electronics Inc and Samsung Electronics Co (Source: Times of India June 29, 2005). After the latest acquisition, the total turnover of the Videocon group is expected to be Rs 17,500 crore (\$4 billion) with more than Rs 8,700 crore coming from global operations.

“We would help Videocon become the global leaders in CPT business through our technological supremacy and in turn we will bring in our strength into India,” Frank Dangeard, CEO of Thomson SA said. Thomson’s facilities include full-fledged R&D facilities at various places located in Europe and China along with access to a large resource of the patents and IPRs relating to the most basic technologies in CPT. Except for one facility in China, which has the Chinese government as minority shareholder, all the business interests are 100% owned by Thomson, (Sources: The Financial Express: Wednesday, Jun 29, 2005).

ISPAT acquires Finmetal Holdings

Ispat invest \$ 300 million for acquiring the 2.2 million steel plant. The total investment for the acquisition, combined with further investments and environment management costs, will be \$300 million. As per official source of the company, Global Steel Holdings, one of the group’s holding companies, has signed an agreement to acquire Finmetals Holding, which controls a 71 per cent stake in Bulgaria’s largest steel mill, Kremikovtzi. Ispat group’s move to acquire Finmentals Holding follows its abortive attempts to take over Kremikovtzi.

After the privatisation of the Kremikovtzi mill, the Bulgarian authorities imposed restrictions on it, including non-transfer of assets. This prompted the Ispat group to bid for Finmetals Holding. The Ispat group now operates and manages 14 million tonnes of steel making capacity in the Phillippines, Libya, Nigeria, India, Bulgaria and another 1.4 mtpa of coke making facilities in Bosnia and iron mines in Nigeria with over 260 million tonnes of reserves. Ispat proposes to take up its plant capacity at Dolvi near Mumbai in India from 3 million tonnes to 5 million tonnes over the next couple of years (Source: Mumbai, April, 2005, Business Standard).

Matrix Laboratories acquires Docpharma

Matrix Laboratories Ltd announced on June 19, 2005 that their Board of Directors had approved to acquire a controlling stake in Docpharma NV (Eurolist of Euronext Brussels, DOCPH), from Chairman and founder Leon Van Rompay and other key shareholders (the "Reference Shareholders") for a price of EUR 34 per share. Commenting on the transaction, N Prasad, Chairman & CEO of Matrix stated: "The acquisition of Docpharma accelerates our evolution as a growing force within the global generic pharmaceutical industry. This transaction allows us to gain direct access into the under-represented, high growth generic pharmaceutical markets of Belgium and southern Europe. We will continue our strategy of partnering with the generic companies world-wide, while continuing to develop our presence in Docpharma's target markets. Docpharma's strengths in product selection, branding, marketing and distribution are highly complementary to our traditional strengths in product development and manufacturing. Given the

lack of any operating overlap between our companies and the strong commitment shown by Docpharma management to the combined entity, we expect a seamless and timely integration process. We look forward to partnering with Leon and Stijn as they become part of our core management team and help lead our efforts in Europe." (Source: Press Release by Matrix Laboratories Ltd, June 29, 2005).

Leon Van Rompay, CEO and founder of Docpharma, commented: "This is a strategically important step in the development of Docpharma. The combination with Matrix will create a vertically integrated player providing Docpharma with significant economies of scale and improvements in terms of product sourcing, product development and production cost and speeds up our ability to bring products to market. This partnership will enable us to accelerate the growth of our combined businesses in Europe. The markets in which we operate continue to offer enormous potential and with the support of Matrix Laboratories, providing outstanding quality products produced according to FDA and European cGMP standards, we very much look forward to taking full advantage of these opportunities." Stijn Van Rompay, COO of Docpharma added: "We are very excited about this combination as it provides us with a new platform to drive our business. We found the Matrix management team to be extremely open, focused and efficient and are looking forward to working with them closely to build a new leader in the European generic industry."

The combined entity will integrate Matrix's considerable manufacturing capacity with Docpharma's strong marketing and distribution platform in key growing markets within southern Europe, making it one of a select few generic

pharmaceutical companies in its key markets with the ability to compete on the basis of cost advantage as well as marketing differentiation. Management of both companies believes that there is significant opportunity to drive both cost and revenue synergies as a result of this combination (Source: Press Release by Matrix Laboratories Ltd, June 29, 2005).

HPCL acquires Kenya Petroleum Refinery

Hindustan Petroleum Corporation Ltd (HPCL acquires 67 percent stake in Kenya Refinery Ltd in a deal valued around Rs. 2,200 crore (\$500 million). The company has conducted studies in 20 countries for opportunities in the petroleum sector. (Source: Corporate report: Sept 21, 2005).

Ballarpur acquires Sabah Forest Industries

Ballarpur Industries Ltd. (BILT), India's leading paper manufacturer, today announced the completion of the acquisition of 97.78% Sabah Forest Industries SDN. BHD. (SFI), the largest integrated pulp and paper mill in Malaysia. The value of the acquisition is estimated to be USD 261 million. The signing ceremony to mark the transfer of ownership was conducted today between Mr. Gautam Thapar, Chairman, Ballarpur Industries Ltd. & Datuk Albert Cheng of the Lion Group in presence of the Right Honourable Datuk Seri Musa Haji Aman, The Chief Minister of Sabah. The acquisition is being jointly done with JP Morgan who will have a beneficial ownership of 20% equity of SFI. The acquisition is through Ballarpur Paper Holdings BV, a substantial subsidiary of BILT. (Source: Friday, March 16, 2007).

Gautam Thapar, Chairman BILT said, “Acquisition of Sabah Forest Industries is in line with our strategy to globally expand our paper and pulp operations. To achieve the true potential of SFI, in the first phase alone, BILT will invest US \$ 100 million for increasing the paper capacity to 200,000 tonnes per annum and pulp capacity to 250,000 tonnes.” Sabah Forest Industries (SFI) operates the largest Pulp and Paper mill in Malaysia with paper capacity of 1,44,000 MTPA and pulp capacity of 1,20,000 tonnes per year. SFI holds a concession for approximately 2,89,000 hectares of forestland by the State Government of Sabah. This concession is valid for 99 years from January 1, 1996 to December 31, 2094. Apart from the pulp and paper mill, SFI’s other assets include a jetty and a power plant facility.

“BILT would also help SFI to achieve operational bench-marks, improved productivity parameters as well as introduce value-added products including coated paper into SFI’s portfolio. BILT would also be able to support SFI by raising the level of information technology currently adopted to run its operations. In a span of 8-10 years we would be investing close to US\$ 1 billion, which would encourage ancillary industry adding further fillip to the local economy,” further added Mr Thapar (Source: Friday, March 16, 2007, Moneycontrol.com).

TCS acquires Financial Network Services (FNS)

TCS’ first major international acquisition comes at a time when Indian software firms have begun taking on their global peers in bagging big-ticket deals. All the 190 employees of FNS will be absorbed into TCS and this acquisition will

strengthen the company's portfolio of banking and financial services. Revenue from the acquisition will start to come in with immediate effect. FNS has a top line of \$25 million and its products are used by 115 banks in Asia, Latin America, Africa and West Asia.

TCS, which has had a long standing relationship with FNS, is also the implementation partner for the FNS product in State Bank of India's core-banking solutions across its 10,000 branches. TCS has implemented this product at Central Bank of India and Indian Bank. With this acquisition, TCS adds a core-banking product to its financial services solutions portfolio of Quartz (private investment banking product) and NCS (custody product). Product revenue currently accounts for 10-11 per cent of the \$750-million revenue TCS earns from the BFSI sector. According to S Mahalingam, CFO, TCS; "From a strategic perspective, the FNS acquisition will help us in being a complete solutions provider for the global banking industry. We have gained a deep insight into the FNS product through our implementations and this will form the nucleus of our core banking strategy for the global market." He further added that FNS had good deals in the pipeline and that TCS hoped to benefit from this in the near future. "This acquisition will add great value to us as it enhances the range of our asset-based solutions for the banking industry, besides giving us a number of new global banking customers in Asia, Europe and South Africa," said Mahalingam the CEO.

FNS has a development centre in Australia, besides a product support centre in Manila. These two centres will team up with TCS' banking product centres in India and Switzerland. NG Subramaniam, head of TCS' global banking practice, said, "FNS' product is a robust, well-established solution and we are confident of being able to implement this in any bank in any part of the world." We will compete aggressively in the core banking enhancement and replacement market by leveraging its capabilities developed on complex banking projects." The TCS stock gained marginally to close at Rs 1415.95 on the Bombay Stock Exchange today, up from Rs 1402.30 posted yesterday (Business Standard: Our Bureau, Bangalore/Mumbai Oct 21, 2005).

United Phosphorous acquires Cerexagri

Mumbai-based pesticides company United Phosphorus Ltd (UPL) on Wednesday said it is acquiring Cerexagri, the crop protection unit of French chemicals company Arkema, for close to euro 111 million. When completed, the acquisition will make UPL the third largest generic agrochemical company in the world, UPL informed the exchanges. Cerexagri has over 70 years of experience in the global market and has a strong distribution presence in Europe and the US, which together accounts for about 80% of the annual sales revenues. A profitable company, it has manufacturing sites mainly in Europe and employs a total of about 630 staff.

UPL has a product portfolio of insecticides, herbicides and fumigants, which would complement the fungicides range from Cerexagri. Moreover, the selling platform provided by the broad and deep distribution capabilities of Cerexagri would create a truly global and competitive combined entity, the company said. This positioning would be further enhanced by UPL's strong manufacturing and... R&D capabilities based in India. The acquisition of Cerexagri will be UPL's fifth acquisition in this calendar year following the acquisitions of Advanta BV, Crop Serve, products from Bayer Cropscience and Bensulfuron from Dupont. UPL was represented by YES Bank Ltd and Close Brothers in the transaction. Arkema, which was spun off from Total in May 2006, is a manufacturer of industrial chemicals, including acrylics, fluorochemicals, technical polymers and agrochemicals. (Source: Thursday, Nov 16, 2006, The Financial Express).

Tata Coffee acquires Eight O Clock Coffee

Tata Tea Ltd. and Tata Enterprises (Overseas) AG, the international arm of the Tata Group, joined the special purpose vehicle (SPV) floated by Tata Coffee Ltd. to buy the U.S.-based Eight O'Clock Coffee Company from venture capital fund Gryphon Investors for Rs. 1,015 crore (\$220 million). The New Jersey-based Eight O'Clock Coffee Company is a top roaster and distributor of branded "value gourmet" and whole bean coffee with a market share of 52 per cent and 46 per cent respectively in the U.S. The company distributes its product through Wal-Mart, Publix, Albertson's, A&P, Super Value and Food Lion.

Within the broad U.S. retail coffee category, Eight O'Clock Coffee is the third largest brand by volume, behind Folgers and Maxwell House. The brand is uniquely positioned in the coffee marketplace at a mid-level price point with high quality 100 per cent Arabica beans and 150 years of brand equity. Sales have been growing at a compounded annual growth rate of over 14 per cent in the last three years. The acquisition is in line with the vision of Tata Tea Ltd., of which Tata Coffee is a 51 per cent owned subsidiary, to become a global beverage player.

It follows a string of acquisitions by Tata Tea in various countries, including Tetley globally, Good Earth Tea in the U.S. and JEMCA in the Czech Republic. With the acquisition of Eight O'Clock Coffee, Tata Tea will now have significant scale in all-important markets in Asia, Europe and North America (Source: WWW.hindu.com).

M&M acquires British Forging

Mahindra and Mahindra Limited (M&M) group acquires British company shares. Indian auto major Mahindra and Mahindra Limited (M&M) acquired majority shares in Britain's largest auto forging company, Stokes Group Limited. M&M acquired 98.6 percent shares in the 25-million pound Stokes Group from its existing shareholders. According to a company press release, Stokes Group is the largest automotive forging company in Britain with state of art net-shaped forging technology. The Vice Chairman and Managing Director M&M, Anand Mahindra, said: "We believe the Stokes acquisition demonstrates our commitment to build a

world-class business that serves its global customers and enhances value for M&M's stakeholders." The Stokes Group includes three companies with two manufacturing companies situated at Walsall and Dudley, near Birmingham. Stokes' major customers are Koyo Bearings, GWK Group, Land Rover, ZF, Bosch, Benteler, Visteon, Ford and Jaguar. The above acquisition further strengthens M&M's Mahindra Systems and Automotive Technologies (MSAT) Sector. MSAT's unique model aims at offering a full range of services from design to delivery covering engineering services, strategic sourcing of components and supplying of auto component as Tier-1 manufacturers. M&M president Hemant Luthra said: "The acquisition offers multiple benefits to MSAT and Stokes stakeholders. European customers can continue to get high quality product from a better-capitalised supplier at economic pricing. "Indian customers would get access to world class technology and the rich legacy of experience that the Stokes management team brings to the table. Both would benefit from the design capabilities of Mahindra Engineering Services (MES) that can accelerate product development." According to Luthra the senior management team of Stokes will continue under the M&M umbrella and their expertise will be used to enhance the quality of M&M's domestic forging business. The \$2.59 billion Mahindra Group is the largest multi-utility vehicles and tractors in India and has built a strong base in technology, engineering, marketing and distribution employing 11,500 people in six state-of-the-art facilities.
