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Do market, resource and knowledge distance impact inbound cross-border acquisition?

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ABSTRACT

With the increasing phenomena of cross-border acquisition (CBA) activities in emerging economies (EE), evidence about "distance" factors that make these economies attractive to home country firms is sparse. Given this background, we employ major locational advantage distance measures such as market, resource, and knowledge distances and examine their impact on the value and number of inbound CBAs in India. We source inbound CBA deal data from the Thomson Reuters Eikon database for the 1990–2020 period during which 47 home countries were making acquisitions of target firms in India. We develop relevant hypotheses based on a comprehensive literature review. We run tobit and negative binomial regression models on a final sample of 921 country-pair-year observations to test the hypotheses. The results show that increasing market and knowledge distances enhanced the value and number of India's inbound CBAs, fueled by the country's growth potential and knowledge base. However, we find no evidence of a role played by resource distance.

1. Introduction

The significance of foreign direct investment (FDI) as a driver of economic convergence of countries has amplified in the post-Millennium period, with the stake of FDI stock in global gross domestic product (GDP) growing from 22% in 2000 to 35% in 2016 (ECB, 2018). A significant portion of FDI, as well as the most preferred internationalization mode, is cross-border acquisitions (CBAs) (Slangen, 2006). CBAs surged to a remarkable figure of $1.2 trillion in early 2018 (ECB, 2018) from $432 billion in 2014 and $721 billion in 2015 (WEF, 2016). In 2020, India emerged as the fifth-largest recipient of FDI in the world and the second-largest emerging economy (EE) after only China (UNCTAD, 2021). Inbound CBAs in India have witnessed immense growth over the last three decades, reaching $27,211 million in 2019 while rising a further 82.8% in 2020 (UNCTAD, 2019, 2020). Undoubtedly, India has been a favorite

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destination for various home country firms investing in CBA activities. Economic reforms in India have had a major role in making it one of the favorite destinations for foreign investors (Zheng, 2009), supported primarily by the rising GDP and accumulating knowledge gaine in the country (Singhania & Gupta, 2011). India's growing involvement in research and development (R&D) is backing prudent innovations within global innovation networks and, as a result, prompting multinational enterprises (MNEs) to explore India's market potential for their growth strategies (Tiwari & Herstatt, 2012). Based on the inbound CBA volume of $27,211 million in 2020, the World Investment Report 2022 listed India as the top CBA recipient country in the South-Asian region (UNCTAD, 2022). During the 2019–20 period, the world has witnessed a large volume of big-ticket acquisitions that took place in India. For instance, BP (British Petroleum) PLC paid $1 Billion to acquire a 49% stake in the Fuel Retail Service Station Network & Aviation Fuels Business of Reliance Industries Limited (The Economic Times, 2020). Similarly, Aeroports de Paris SA, a France-based firm, acquired GMR Airports Ltd. for $ 1.34 Billion for a 49% stake in the target (Reuters, 2020). ORIX Corp, a Japan-based firm acquired a 51% stake in Infrastructure Leasing and Financial Services Wind Energy Limited (CleanTechnica, 2019). Blackstone Group Inc., a United States-based firm, acquired a 100% stake in Tanglin Developments Ltd-Global Village Tech Park for $ 420.13 million and also sought a 100% stake in One BKC for $ 359.2 million (Mint, 2019). These acquisitions evidently show that developed economies that possess better knowledge and larger markets are showing more interest in investing in India through CBA routes. This is because India has been growing phenomenally at a greater rate surpassing China from 2013 to 2018 (Raghavendra et al., 2022), and its GDP is expected to grow at 6.9% during 2023 (World Bank, 2023). India provides a strong and stable market with a large skilled labor force, policy reforms to provide better infrastructure, taxation, trade regulation, and great market potential to grow (Uddin & Sharif, 2017). Furthermore, India ranked 57th in the Global Business Environment ranking during 2014–18 and ranked 61st during 2009–13 (The Economist Intelligence, 2022). This shift was evident as India has been putting efforts to improve its institutional quality, investing in R&D to be technologically ready to face the global competition. India has been ranked 63rd among the 190 economies in Ease of Doing Business in 2019 (World Bank, 2019). India's innovation has been increasing dramatically in the recent years, reaching 8502 patents filed during 2020–21 alone, which has almost tripled in the last five years from 2020 (Raghavendra et al., 2023). This has brought India a 46th position in 2020–21 from 81st in 2015–16 in the Global Innovation Index (Global Innovation Index, 2021). All these achievements and growth prospects have been the reason for making India an attractive destination.

Given this background, we argue that a growing economy that provides broader opportunities and advancement of technology that helps in cost-effective operations have been the attributes to make India a leading CBA destination. Additionally, we consider Dunning's eclectic hypothesis (Dunning, 1980, 1998), which argues that MNEs prefer host countries that offer ownership, locational, and internationalization advantages. Among the three, locational advantages are highly country-specific, with complementary market, technology, knowledge, and resources, affecting the business environments of home and host countries (Gaffney et al., 2016). EE firms, therefore, internationalize through CBA to enjoy the locational advantage they derive from larger markets with more resources and knowledge (Anwar & Mughal, 2017; Buckley et al., 2007; Deng & Yang, 2015; Dikova et al., 2019; Gaffney et al., 2016; Gunessee & Hu, 2021). Nonetheless, India's growing market compensates for market distance, and growing innovations are making India rich in knowledge distance, which can positively influence its inbound CBA flow. However, India's resources may not have a significant role, as distance measure is very volatile, as shown in Fig. 2. Furthermore, there is evidence of how various antecedents affect India's outbound CBA activities, to name a few, Fuad and Gaur (2019); Kar et al. (2015); Rani et al. (2015); Reddy et al. (2016); Thakur-Wernz et al. (2019), and Tripathi and Lamba (2015). However, the evidence on how locational advantage distance makes India attractive is sparse. Growing market, resource, and knowledge distances fuel scholars to examine the impact of inbound CBA activities.

In light of the above background, we examine how locational advantage distance, measured in terms of market, resource, and knowledge distance, impacts the value and the number of India's inbound CBA activities. Our results show that with increasing market and knowledge distance, the value and the number of India's inbound CBAs increase. India's growth potential and knowledge base fuel its value and the number of inbound CBAs. However, resource distance does not play a significant role.

Our findings have multiple contributions to the existing literature. First, a great majority of the research in the subject area has focused on the US context while some have investigated other markets in the developed world, the UK and Canada in particular (Mager & Meyer-Fackler, 2017; Vasconcellos et al., 1990; Vasconcellos & Kish, 1996). Also, some studies explore CBA activities in EEs, but to our knowledge, no study specifically provides findings to understand the locational advantage that India provides to MNEs. This context makes our study a pioneer in attempting to provide evidence on how locational advantage distance measures can matter in making a developing host country an attractive CBA destination. Second, we contribute to the literature on CBA by (a) showing how market, resource, and knowledge distances impact CBA value and the number of occurrences; (b) examining CBA activities based on locational advantage theory and resource dependency theory; (c) adding knowledge about how locational distance matters in CBA activities from an EE market perspective. Given the fact that there is no existing literature to provide us the direction to understand the importance of locational advantage in making India an attractive destination, this study is unique and the first of its kind. This study delivers evidence to show that despite MNEs entering India from larger markets, India's market potential to grow is playing a significant role in attracting foreign investments. This extends the assumption of location advantage theory which emphasizes that market potential to grow matters in making a host country attractive for MNEs investing through CBA activities. Additionally, our findings also contribute to the locational advantage theory by showing that MNEs will be interested in investing more in such countries when host countries are involved more in R&D activities. Furthermore, our research findings show internationalization behavior at large by extending the resource dependence theory, which argued that resource interdependency between the home and host countries also plays a significant role in enhancing CBA flows between those countries.

This paper has implications for managers and policymakers. We show how locational advantage helps in negotiating to seek complementary resources while undertaking CBA activities. Our findings support their decision-making process by providing insights on when, how much, and how frequently to invest when they have the locational advantage in an EE host. It also directs that managers

should look for market potential to grow in the host countries, similar to what India provides, instead of mere market size. Further, they should look for countries which are extensively investing in R&D to improve the knowledge base to undertake CBA activities. Similarly, our findings show that policymakers in India and the EE at large should try to improve the knowledge base by encouraging firms, academicians, and research institutions to undertake more R&D to attract more CBA flow.

The paper is structured as follows: first, we review the existing literature to understand how locational advantage determines CBA activities and develop our hypothesis for empirical testing. We then explain our methodology of collecting and processing data as well as developing regression models. We finally present and discuss the results and draw conclusions with recommendations on the future scope of further research.

2. Literature review and hypothesis development

Dunning's eclectic hypothesis (Dunning, 1980, 1998) provides evidence that MNEs prefer CBA activities to gain ownership, location, and internationalization advantages. These advantages are from diverse theoretical bases covering the firm, industrial organization theories and economic locations (Anwar & Mughal, 2017). Among the three advantages, ownership advantages are firm-specific, and MNEs gain them in the local market and exploit them in the host markets as part of their CBA activities. International advantages are based on transaction costs, agency issues, uncertainty avoidance, and other internationalization theories (Kumar et al., 2023). Locational advantages are country-specific advantages that MNEs seek through the CBA activities to gain access to the host country's market, technology, natural resources, and strategic assets. Furthermore, the resource dependency perspective, in particular, emphasizes the market and resources as the primary motives for CBA activities. However, whether the resource dependency hypothesis is consistent across countries in explaining its impact on CBA activities is still sparse (Deng & Yang, 2015). India, a great example of an EE market, offers certain location advantages in terms of its market size, resources, and growing number of strategic assets (UNCTAD, 2021). Many scholars have examined the EE market's outbound CBA activities; however, not much evidence provides insights into what makes an EE attractive from the locational advantage perspective. Furthermore, the scholars ignore the country-level analyses to add insights into how resource-seeking motives impact CBA values (Deng & Yang, 2015).

A review of extant literature highlights some exciting facts on how locational advantage factors matter in CBA activities. For instance, Buckley et al. (2007) examined the outward FDI of China and found a significant impact on market growth and size, cultural and geographical distance, host country market size, and natural resource intensity. de Beule and Duanmu (2012) observed that the institutional framework, including better rule of law, regulatory quality, and control of corruption in host countries, attracted Indian firms, while political risk discouraged both Indian and Chinese firms from undertaking CBA activities. Gaffney et al. (2016) established a linear nexus between knowledge distance and equity control sought by the MNEs and a curvilinearity with economic distance for BRIC countries. Anwar and Mughal (2017) investigated the South African firms undertaking CBA activities and observed significant influence of host country markets, less importance of natural resources, and no role of technology at all. Deng and Yang (2015) studied nine EEs for the 2000–12 period and observed that the EE firms' acquisition intensity increases when the target firm is in a developed market, i.e., characterized by larger market size, rich natural resources, and strategic assets (possessing better knowledge). Furthermore, when developed host countries have weak government effectiveness, firms pursue CBA more frequently to acquire market, resources, and knowledge. Gubbi (2015) emphasized that MNEs choose full stake when the host market is larger and prefer partial stake when hosts possess strategic assets. Similarly, larger markets and strategic resources prevailing in the host country benefit MNEs when they target firms in developed economies, and natural resources when they target firms in EEs (Buckley & Munjal, 2017). Moreover, as Dikova et al. (2019) stressed, natural resource endowment provides a locational advantage and influences MNEs to prefer a full stake in target firms. Likewise, the Chinese MNEs prefer CBA over greenfield investment only to access the host country's natural resources and market or strategic assets; however, for Africa, it does not matter (Gunessee & Hu, 2021).

Given that there is a lack of clarity in the literature about how these locational advantage distance measures play a role in the inbound CBA activities of an EE, we attempt to fill the gap by exploring the notion associated with India's inbound value and the number of CBA cases.

2.1. *Market distance*

Market distance is associated with a broader concept of economic distance. Whitley (1992) explained the latter by the differences between countries arising from the status of their macroeconomic growth indices, e.g., GDP, cost of living, and international trade, that influence the type of investment an MNE would consider (Berry et al., 2010). Likewise, Dong et al. (2019) interpreted economic distance as the difference between home and host countries based on the levels of economic development and its corresponding nexus with market growth and size, as well as qualities of resources, infrastructure, and ICTs. MNEs that explore foreign markets tend to undertake market-seeking CBA (Liang et al., 2018) and consider the host's market size as an attractive antecedent for undertaking CBA activities (Estrin et al., 2018). This implies the ability of larger host markets to attract CBA deals to gain an advantage in economies of production, distribution, and greater demand for goods and services (Dikova et al., 2019). Unlike other internationalization strategies, CBAs act as an MNE gateway to access benefits from economies of scale and scope (Buckley et al., 2007; Deng & Yang, 2015) as well as alternative resources, e.g., financial assets (Dunning et al., 2008), offered by large host markets. Acquirers from developed economies undertake more CBA activities in less developed economies (Rossi & Volpin, 2004), and EEs attract MNEs from such developed markets by offering economic growth (Kiymaz, 2004, 2009). Conversely, Dong et al. (2019) suggested the possibility that the successful completion of CBA rises when the host country belongs to the advanced world whereas the possibility goes down when the target host is from the developing world. Economic distance is typically assumed to impact the internationalization of MNEs negatively, and

acquirers eventually do not gain when the distance is larger (Gaffney et al., 2016; Lim & Lee, 2017). The loss of gains is usually associated with high transaction costs, low returns, and CBA abandonment risks (Cui et al., 2006; Lim & Lee, 2017).

Fig. 1 shows that the economic distance is positive and gradually increasing between home countries and India. The positive value of market distance indicates that the home country's market is much larger than the one in India. However, India's fastest-growing economy offers high growth potential to the MNEs targeting its firms. Such high growth potential positively affects CBA activities (Di Guardo et al., 2016; Hyun & Kim, 2010). India was growing phenomenally, at a rate surpassing China, from 2013 to 2018 (Raghavendra et al., 2022), and its GDP is expected to grow at 6.9% during 2023, according to World Bank reports. India has sought to improve institutional quality, control corruption, and decrease barriers to entry through polity liberalization, develop its growing young population and the skilled labor pool, and enhance its adaptability to new business culture, which altogether provide a wider scope for growth opportunities. Hence, its market potential is relatively higher than those of the other EEs.

Given the above background, we hypothesize that economic distance positively affects the value and number of India's inbound CBA activities:

H1a. *Economic distance (between home countries and India) has a significant positive influence on the value of India's inbound CBA activities.*

H1b. *Economic distance (between home countries and India) has a significant positive influence on the number of India's inbound CBA activities.*

2.2. Resource distance

Natural resources are another critical factor that MNEs seek in host countries through CBA activities. MNEs undertake vertical integration to gain access to natural resources (Buckley & Munjal, 2017) and prefer full equity control to realize access (Buckley et al., 2007). At the early stage of host countries' economic development, MNEs undertake natural resource-seeking acquisitions in those countries (Buckley & Munjal, 2017). As resources are widely diversified geographically, MNEs undertake CBA activities to access heterogeneous resources in the host country. Unlike the case of market distance, when the (natural) resources that MNEs find in the host country are homogeneous, they may not consider it attractive to undertake CBA activities in such host countries. Natural resources such as natural gas, oil, minerals, ore, and metals are vital to firms' operations and growth (Chen et al., 2023). When MNEs import natural raw material and energy resources, the cost of operations increases due to high demand, increased prices, and saturated export markets (Gunessee & Hu, 2021). When a host country's natural resources are substantial, it attracts MNEs to undertake more CBA activities. However, when the natural resource distance is high, it can have both positive and negative impacts. It positively affects CBA activities when the distance (home country–host country) is negative, implying that the host country has much greater resources than those of the home country. On the other hand, when the distance measure is positive, the home country has larger resources than the host, and it will negatively affect CBA activities.

In Fig. 2, the resource distance between home countries and India appears positive till 2004, turns negative during 2005–2011, and again becomes positive during 2012–2020. Even though the resource distance is not consistent, there is a growing distance. However, the value and number of CBA activities are growing consistently irrespective of the volatility of this distance, indicating resource

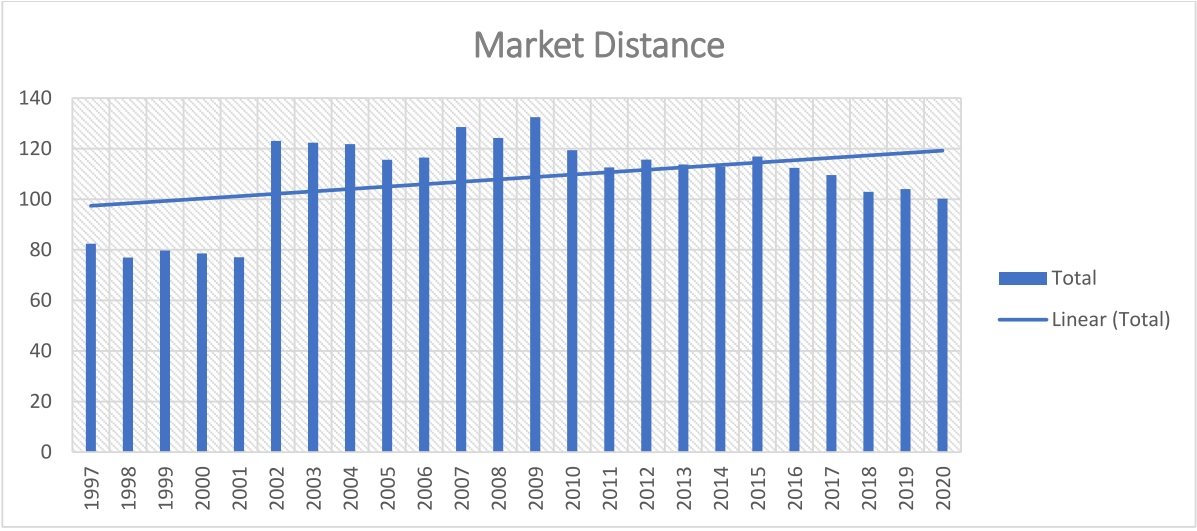

Fig. 1. Economic distance trend (between home countries and India), 1997–2020.
(Source: Market distance is measured in terms of differential values of GDP per capita between home and host countries, sourced from the world bank database; the study period is from 1990 to 2020, however, due to missing values, this period has been reduced to cover from 1997 to 2020).

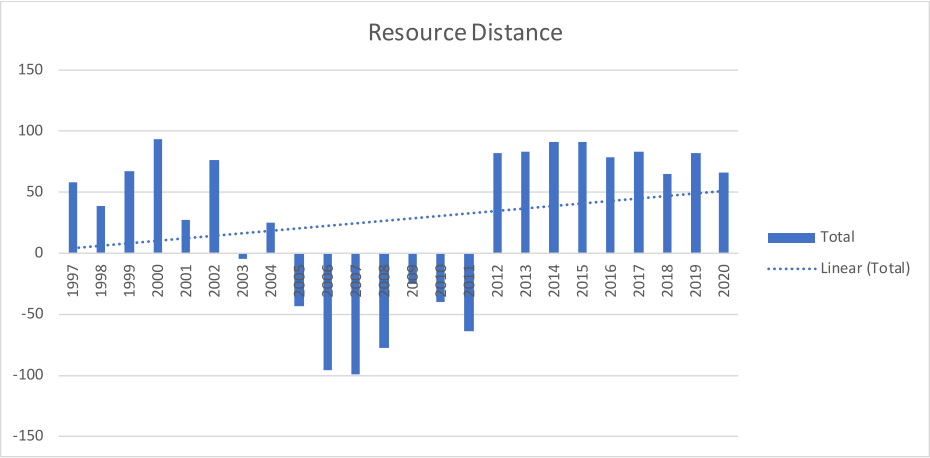

Fig. 2. Resource distance trend (between home countries and India), 1997–2020.
(Source: Resource distance is measured in terms of differential values, of exports of ore and metal as a percentage of total merchandize exports, between home and host countries, sourced from world bank database; the study period is from 1990 to 2020, however, due to missing values, this period has been reduced to cover from 1997 to 2020).

distance may not be a significant locational factor for MNEs targeting India as a host country.

In light of the above backdrop, we hypothesize that the natural resource distance between home countries and India has no impact on India's inbound value and the number of CBA activities:

H2a. *Natural resource distance (between home countries and India) has no significant impact on the value of India's inbound CBA activities.*

H2b. *Natural resource distance (between home countries and India) has no significant impact on the number of India's inbound CBA activities.*

2.3. Knowledge distance

Given that people's capability and scholarly contributions are not dispersed in equal proportions globally (Florida, 2002) and hence cause gaps among economies, the knowledge gap between economies plays a vital role in targeting firms across the border (Guler & Guillén, 2010; Nachum et al., 2008). In addition to the market and natural resources, firms therefore pursue CBA activities to get access

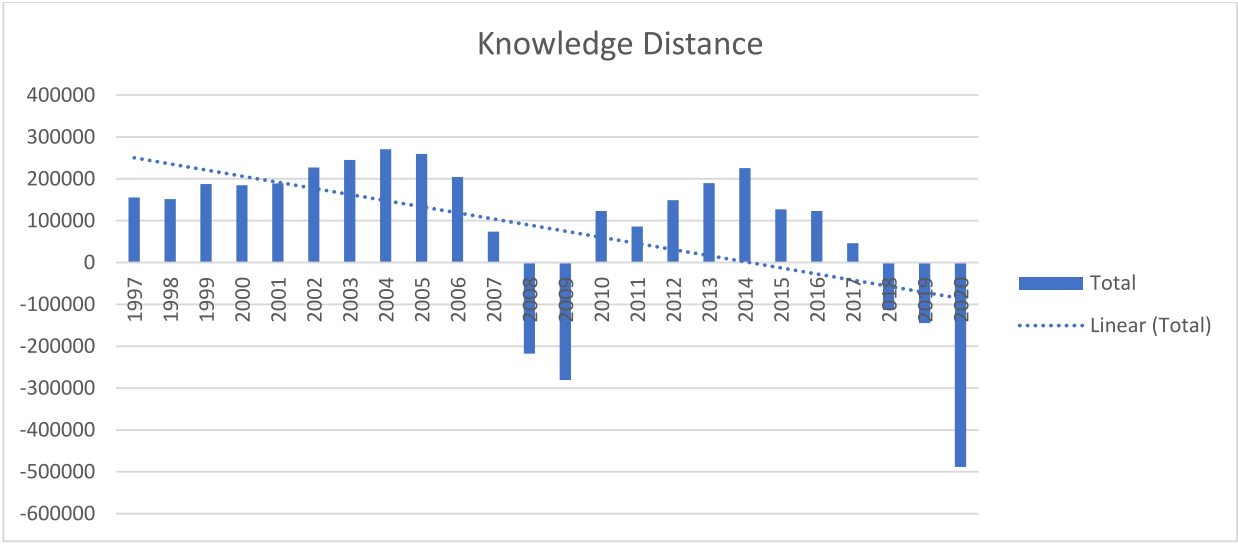

Fig. 3. Knowledge distance trend (between home countries and India), 1997–2020.
(Source: Resource distance is measured in terms of differential values of the number of patents registered by residents and non-residents between home and host countries, sourced from the WIPO database; the study period is from 1990 to 2020, however, due to missing values, this period has been reduced to cover from 1997 to 2020).

to strategic knowledge/assets that include intangible assets and technical know-how (Luo & Tung, 2007). MNEs undertake CBA activities to acquire such knowledge or update existing knowledge activities through product and/or process innovations, patents, managerial abilities, and technical capabilities (Dikova et al., 2019). Evidence shows aggressive CBA activities of acquiring firms to gain patent-protected technology, know-how, brands, and distribution networks (Nicholson & Salaber, 2013). It is common to find firms in EE undertake more CBA activities to gain strategic assets in the developed economies (DE) that they do not have in their home country (Buckley, 2016). Most of such strategic assets are located in the DEs (Uddin & Sharif, 2017) and hence become targets of EE-led CBA activities (Buckley & Munjal, 2017). With regard to investing in technology-oriented industries, Elia and Santangelo (2017) warned EEs about their possible lack of a "critical knowledge threshold" and hence a resultant failure in successfully converting their target CBA. As an addition to the international business literature, Meyer and Estrin (2014) reiterated the role of human resources in knowledge distance and pinpointed the opportunities that specialized knowledge and skills of the labor force may create for CBA activities. MNEs therefore tend to consider investing in DEs (Collins et al., 2009), prioritizing CBA activities or joint ventures over greenfield investments (Estrin et al., 2009).

Fig. 3 shows volatile knowledge distance between home countries and India, indicating an overall diminishing trend and a growingly negative value after 2017. This trend implies that the home countries have better knowledge in the initial few years, which then witnesses a drastic fall to negative, hence indicating that India has generated better knowledge in recent years and its knowledge is enhancing further. India's innovation has been increasing dramatically, reaching 8502 patents filed during 2020–21 alone, which has almost tripled in the last five years. This has brought India a 46th position in 2020–21 from 81st in 2015–16 in the Global Innovation Index (2021). This may encourage the acquiring firms to undertake more CBA activities with targets in India.

Considering the above background, we hypothesize that knowledge distance positively impacts India's inbound value and number of CBAs.

H3a. *Knowledge distance (between home countries and India) has a significant positive impact on the value of India's inbound CBA activities.*

H3b. *Knowledge distance (between home countries and India) has a significant positive impact on the number of India's inbound CBA activities.*

3. Data, variables, and methods

3.1. Data

Sourcing from the Thomson Reuters Eikon database, we cover all CBA deals recorded from 1990 to 2020. Given that most countries, including developing nations, have become highly globalized since the early 1990s (Boughton, 2001; McMillan & Rodrik, 2011), we considered this useful to initiate the empirical investigation from 1990. Our original sample consisted of CBA deals undertaken by 47 home countries which were targeting firms in India, totaling 1597 deals in the form of country-pair-year observations. Our net sample

Table 1
Details of variables.

Independent Variable	Definition	Source	Reference
Market Distance	The difference in the GDP per capita of the home country and India in year "t" of CBA activity	World bank	(Buckley & Munjal, 2017)
Resource Distance	The difference in the ratio of ore and metal exports to merchandize exports of home country and India in the year "t" of CBA activity	World bank	(Deng & Yang, 2015)
Knowledge Distance	The difference in the total number of patent registration by both residents and non-residents of home country and India in the year "t" of CBA activity	World Intellectual Property Organization (WIPO) statistics database	(Deng & Yang, 2015)
Ex_Rate	Exchange rate growth is measured as lagged exchange rate change (t − 1 to t) between the home country and India	World bank	(Erel et al., 2012)
Taxburden_T	Tax burden score of India in the year "t" of CBA activity as a proxy to financial development	Heritage Foundation	(Prasadh & Thenmozhi, 2018)
Geo_Distance	Log distance between capital cities of home country and India (a time-invariant variable)	Time and Data	(Cuypers, Ertug and Hennart, 2015; Jongwanich et al., 2013)
Findepth_A	The financial depth of the home country is measured as the ratio of domestic private credit to GDP in the year *"t"* of CBA activity	World bank	(Erel et al., 2012; Liang et al., 2018)
Inflation_T	The inflation rate of India is measured as the consumer price index in the year *"t"* of CBA activity	World bank	(Ibrahim & Raji, 2018)
Inst_Distance	The institutional distance is measured as differences in the world governance index between the home country and India in the year *"t"* of CBA activity; measured values are calculated following (Kogut & Singh, 1988) methodology	(Kaufmann et al., 2010)	(Yoon et al., 2020)
Cul_Distance	The cultural distance is measured as differences in Hofstede's cultural dimensions (a time-invariant measure) between the home country and India; measured values are calculated following Kogut & Singh, 1988) methodology	Hofstede-insights.com	(Yoon et al., 2020)

Source: Authors' presentation.

was reduced to 921 observations after filtering out the missing values of independent variables.

3.2. Variables

Our predicted variables are the value and the number of CBA activities. The value of CBA is measured as the sum of the dollar value of all CBA deals between home countries and India in the year *"t"*, following Ahern et al. (2015) and Prasadh and Thenmozhi (2019). Similarly, the number of CBA is measured as the total number of CBA deals between home countries and India in the year "*t*", following Dikova et al. (2019). We have chosen both value and number of CBA as the value has certain limitations. First, value involves extreme values (too large or too small) which influences the overall results. However, if these outliers are addressed, value is an essential financial decision that captures the CBA investments between countries. We have used winsorizing approach to treat the outliers (Chen et al., 2023; Nasrin, 2022). Second, value calculation is incomplete as the data on the value of CBA is not disclosed/provided by any databases, including Thomson Reuters Eikon and SDC Platinum. To overcome these limitations without ignoring the importance of value in CBA decisions and to ensure the robustness of our findings, we have taken the number of CBA deals between home and host countries to treat every deal equally and fairly. Moreover, in recent times, many scholars have argued that the number of CBA as a dependent variable is an unbiased representative to capture the CBA flows between countries, overcoming the limitations of the value of CBA (Deng & Yang, 2015; Dikova et al., 2019; Zhang et al., 2011). To ensure the robustness of our results, we have included both as our predicted variables. Our major explanatory variables include distance locational advantage measures. It includes market distance, resource distance, and knowledge distance. We have also included control variables in our models based on the prevailing literature support. A detailed list of all explanatory variables, including control variables, is highlighted in Table 1.

3.3. Econometric models

The predicted variable (as given in Model 1) is the CBA value between countries *A* and *T* in the acquisition year *t*. The dependent variable, value, is censored when there is no CBA transaction between countries, implying no observed value. To alleviate the censoring bias, followed Ahern et al. (2015) and Prasadh and Thenmozhi (2019), we used the tobit regression model to examine the impact of explanatory variables on CBA value. The tobit model is appropriate when the dependent variable is censored or corner solution, meaning they are nonnegative continuous variables with positive values. However, its values are at the corners. The value of CBA is a censored or corner solution-dependent variable whose values are cornered at zero. Due to no CBA activities that have taken place between *A* and *T* at the *t* time period, the dependent variable, the value of CBA, becomes censored at left due to zero values observed within the data. Following the tobit model, we develop an empirical model for qualifying explanatory variables which impact CBA value, as given below:

$$\textbf{Model (1)}: \text{Ln}\left(\text{CBA Value}_{\text{AT,t}}\right) = \beta_1\left(\text{Market Distance}_{\text{AT}}\right) + \beta_2\left(\text{Resource Distance}_{\text{AT}}\right) + \beta_3(\text{Knowledge Distance}_{\text{AT}}) + + \beta_4\left(\text{Controls}\right) + \text{Acquiring country dummies} + \text{Year dummies} + \text{Constants} + \mu_{\text{ij,t}}$$

We have the number of CBA transactions between country *A* and country *T* in the year *t* (Model 2). It is a count variable with a range of 0 to a positive number, and it may be modeled using either Poisson or negative binomial regressions. In the negative binomial regression model, the variance is adjusted independently from the mean, which is known to be a drawback of the Poisson regression model (Deng & Yang, 2015). Therefore, we apply the negative binomial regression to examine the impact of explanatory variables on CBA numbers. Our second dependent variable, the number of CBA activities, is a count variable. Previous studies (e.g., Stiebale, 2016) on the same variable have shown this to be a likely over-dispersed data. Following the negative binomial regression model, we develop the following empirical model for qualifying explanatory variables which impact the number of CBA activities:

$$\textbf{Model (2)}: \text{CBA Number}_{\mathbf{AT,t}} = \beta_1\left(\text{Market Distance}_{\text{AT}}\right) + \beta_2\left(\text{Resource Distance}_{\text{AT}}\right) + \beta_3(\text{Knowledge Distance}_{\text{AT}}) + + \beta_4\left(\text{Controls}\right) + \text{Acquiring country dummies} + \text{Year dummies} + \text{Constants} + \mu_{\text{ij,t}}$$

where *A* is the acquiring/home country; *T* is the target/host country (India); and *t* is the year of CBA activity.

The predicted variable in Model 1 is the CBA value between countries *A* and *T* in the acquisition year *t*. When there is no CBA transaction between countries, the dependent variable, value, is censored because no value is observed. To alleviate the censoring bias, we use the tobit regression model, following Ahern et al. (2015) and Prasadh and Thenmozhi (2019), to examine the impact of explanatory variables on CBA value.

We use the number of CBA transactions between country *A* and country *T* in the year *t* in Model 2. It is a count variable with a range of 0 to a positive number, and it may be modeled using either Poisson or negative binomial regressions. In the negative binomial regression model, the variance is adjusted independently from the mean, which is a drawback of the Poisson regression model (Deng & Yang, 2015). Therefore, we apply the negative binomial regression to examine the impact of explanatory variables on the number of CBA transactions.

Year dummies are used to capture time shocks, whereas country dummies are used to capture invariable impacts, following Prasadh and Thenmozhi (2019). To prevent possible endogeneity concerns with predicted variables, we use one-year lagged values for all explanatory variables encompassing country-paid-year observations, following Dikova et al. (2019).

4. Results and findings

Table 2 shows the average values for CBA activities and distance measures between various home countries and India. We can understand that most of the CBA activities are undertaken by those countries which are economically large, and who possess more resources and knowledge. This creates a curiosity in the minds of the researchers to understand whether India provides a locational advantage, and if so, how it impacts its CBA activities.

Table 3 provides descriptive statistics, depicting a positive mean value for all the major explanatory variables representing the locational advantage distance measures. Market distance has a mean value of 2.82, indicating a smaller market size for India, while offering a high growth potential as the fastest-growing economy. Resource distance has a positive mean value of 0.718, indicating that home countries have better resources than India. This potential means that acquirers are not so keen on India's resource. Knowledge has a larger positive value of 2143.3, indicating the acquirer's technical knowledge is much stronger than that of India. It indicates that acquirers may not be undertaking knowledge-seeking CBA activities. Fig. 1 shows the relationship between the CBA number of transactions and value with the major locational advantage distance measures considered in this study. We cannot find much relation between the CBA activities and resources distance. We however find a negative relationship between CBA activities and knowledge distance, and a positive nexus between CBA activities and market distance.

Table 2
A bird's eye view on average values of CBA activities and distance measures between the various home countries and India.

	Average values				
Home Countries	Number_CBA	Volume_CBA	Economic Distance	Resource Distance	Knowledge Distance
Australia	1.125	30.095	3.726	22.344	8496.042
Austria	0.083	0.384	3.760	−1.420	−5189.667
Belgium	0.952	26.489	3.627	−1.672	−6409.762
Brazil	0.200	10.138	1.975	8.191	−3535.050
Canada	1.583	206.644	3.680	2.138	10,654.250
China (Mainland)	1.083	211.367	1.133	−2.865	143,185.542
Denmark	0.458	8.530	3.967	−3.111	−6052.333
Egypt	0.130	3.108	0.726	−0.012	−6213.174
Finland	0.333	25.706	3.745	−0.186	−5089.833
France	2.542	418.454	3.623	−2.246	5479.750
Germany	2.583	178.963	3.689	−1.800	9207.917
Hong Kong	3.625	163.997	3.560	−1.464	−1824.583
Hungary	0.042	0.004	2.389	−2.544	−5617.250
Iceland	0.125	1.127	3.922	24.228	−6377.417
Indonesia	0.143	0.724	0.754	2.210	−7809.857
Ireland	0.208	31.198	3.904	−3.434	−6180.875
Israel	0.261	1.987	3.399	−3.219	−3346.087
Italy	0.708	17.367	3.495	−2.684	1465.292
Japan	6.500	849.852	3.735	−2.412	171,641.292
Kazakhstan	0.000	0.000	1.592	10.860	−4316.765
Luxembourg	0.368	6.738	4.455	0.514	−7459.105
Malaysia	1.792	241.541	2.014	−2.349	−3724.708
Malta	0.000	0.000	2.952	−3.933	−6663.136
Mexico	0.042	2.687	2.201	−2.241	1481.417
Nepal	0.000	0.000	−0.597	−0.555	−4029.600
Netherlands	2.833	279.458	3.815	−2.118	−4191.917
Norway	0.375	48.122	4.257	1.951	−4842.583
Philippines	0.417	17.271	0.667	−0.623	−4940.333
Poland	0.042	0.123	2.273	−0.168	−3711.792
Portugal	0.042	2.729	2.983	−2.092	−6164.083
Qatar	0.000	0.000	3.391	−1.385	−17,956.500
Russia	0.292	37.350	1.880	2.864	20,918.167
Saudi Arabia	0.136	1.546	2.776	−4.024	−6457.455
Singapore	11.750	1768.354	3.722	−3.231	−825.500
Slovakia	0.042	0.414	2.552	−1.532	−6021.667
South Africa	0.542	62.988	1.688	17.717	−2079.417
South Korea	1.167	38.048	3.068	−2.596	74,289.125
Spain	0.762	37.606	3.305	−1.578	−4450.857
Sri Lanka	0.167	0.649	0.682	−3.491	−5712.167
Sweden	1.130	49.338	3.913	−0.849	−4032.174
Switzerland	1.391	84.126	4.236	−1.262	−5767.913
Thailand	0.333	3.817	1.431	−3.193	−5206.708
Turkey	0.087	0.927	2.071	−1.055	−5185.217
United Arab Emirates	3.500	584.951	3.196	−0.523	−8743.600
United Kingdom	8.042	2098.260	3.720	−1.349	687.208
United States	31.667	3394.832	3.914	−1.631	201,947.708
Zambia	0.048	1.212	−0.049	66.637	−7112.238

(Source: Authors' own consolidation from the data obtained from Eikon database; average values covering the study period from 1990 to 2020).

Table 3
Summary Statistics.

Variable	Mean	S.D.	Min	Max
Value_CBA (1)	1.44	2.68	0.000	10.0
Number_CBA (2)	1.79	2.54	0.000	8.76
Ex.Rate (3)	−0.00236	0.0474	−0.121	0.124
Taxburden_T (4)	75.9	3.19	67.1	79.4
Geo_Distance (5)	8.64	0.410	7.79	9.59
Findepth_A (6)	84.5	45.1	5.12	204.
Inflation_T (7)	6.53	2.90	3.33	13.2
Inst_Distance (8)	0.00280	0.00253	0.000460	0.0103
Cul_distance (9)	0.00230	0.00161	0.000546	0.00639
Market Distance (10)	2.82	1.22	−0.658	4.79
Resource Distance (11)	0.718	6.83	−7.81	20.6
Knowledge Distance (12)	2143.3	17,779	−23,569	52,687

Source: Authors' work.

Table 4 shows the relationship of all variables in this study through a correlation matrix. Although correlation coefficients among the variables are not high, we still run the VIF test to check the multicollinearity. We found all the variables in the models have a VIF value <5, implying no serial collinearity Hence, we include them in the regression models.

4.1. Locational advantage distance measures and CBA value

Table 5 provides tobit regression model results. Model 1 is the baseline model, which shows the impact of control variables. Models 2 to 6 test the main effects of three resources seeking motives of CBA activities using 921 country-pair-year observations. We find exchange rate growth, the inflation rate of India, and institutional distance have a negative insignificant ($p > 0.1$) impact on CBA value. Similarly, cultural distance has a negative significant ($p < 0.01$) impact on India's inbound CBA value. Surprisingly, geographical distance is found to have a positive impact while it turns negative from models 4 and 6. Moreover, the financial depth of the home country has a positive insignificant impact, while the tax burden representing the financial development of India has a significant positive impact on India's inbound CBA value.

Model 2 shows the impact of market distance on the CBA value along with the control variables (Hypothesis 1a). We find a positive and statistically significant ($p < 0.01$) impact on India's inbound CBA value, supporting our hypothesis. The findings suggest that when there is a unit increase in market distance, India receives 2.453% more CBA volume. Model 3 examines the impact of resource distance on the CBA value (Hypothesis 2a), and we find no significant ($p > 0.1$) impact on India's inbound CBA volume. However, the coefficient is positive indicating India's inbound CBA value increases by 0.0315% when the resource distance increases. Even though the coefficient is positive, we did not find it statistically significant supporting our hypothesis. Model 4 shows the impact of knowledge distance on the CBA value (Hypothesis 3a) and as expected, we find a positive and statistically significant ($p < 0.01$) impact on CBA value that India receives. When the knowledge distance rises, India's inbound CBA value increases by 0.0001%. Model 5 examines the overall results of all the variables along with the control variables. We find that our major variable, market distance, is having a positive and statistically significant impact, indicating that an amount of increase in the market distance leads to a 2.066% increase in the CBA value. Resource distance is still positive, and an increase in this distance results in a 0.066% increase in the value of CBA deals in India, but this is statistically insignificant. We find not much difference in the impact of knowledge distance on the CBA value. Its coefficient is constant (0.0001) and statistically significant ($p < 0.05$). With the increase in the knowledge distance, the CBA value increases by 0.0001%. We find support for all three hypotheses on CBA value.

4.2. Locational advantage distance measures and number of CBA

Table 6 highlights the results of the negative binomial regression model, showing the impact of location advantage distance measures on India's inbound number of CBA activities. Model 1 provides the results of control variables. We find that exchange rate, financial depth of the home country, and India's inflation rate have a negative but statistically insignificant ($p > 0.1$) impact on the number of inbound CBA activities in India. Institutional distance and cultural distance have a negative significant ($p < 0.01$) impact. Model 1 to 3 show a positive impact of geographical distance. However, from Model 4, it turns to impact negatively. The tax burden score of India has a positive but statistically insignificant ($p > 0.1$) impact on the number of CBA activities.

Model 2 shows the results of the market distance measure impacting the number of inbound CBA activities in India (Hypothesis 1b). We find a positive significant impact market distance ($p < 0.01$), thus supporting our hypothesis. A unit increase in the market distance results in a 0.598 unit increase in CBA activities between home countries and India. Model 3 shows the impact of resource distance (Hypothesis 2b), which is negative but statistically insignificant, supporting our hypothesis. We find a unit increase in resource distance leads to a 0.032-unit decrease in the number of CBA deals undertaken by home countries in India. Model 4 shows the results of knowledge distance (Hypothesis 3b), which we found to have a positive significant ($p < 0.05$) impact on the number of CBA deals. A unit increase in the knowledge distance leads to a 0.00002 unit increase in the number of CBA deals undertaken by MNEs from various home countries in India. Model 5 provides the overall results of all the variables together. We find market distance impact being positive and statistically significant ($p < 0.01$), a unit increase in the market distance leads to a 0.696 increase in the number of CBA

Table 4
Correlation Matrix of all the variables.

	1	2	3	4	5	6	7	8	9	10	11	12
Value_CBA (1)	1											
Number_CBA (2)	0.8448	1										
Ex.Rate (3)	−0.0323	−0.0235	1									
Taxburden_T (4)	0.1510	0.1049	−0.0256	1								
Geo_Distance (5)	0.0704	0.0864	−0.0303	−0.0280	1							
Findepth_A (6)	0.3069	0.2416	−0.0525	0.0559	−0.0197	1						
Inflation_T (7)	−0.0316	−0.0268	−0.0554	−0.5039	−0.0126	0.0398	1					
Inst_Distance (8)	0.0764	0.0228	0.0547	0.1787	0.1385	−0.2404	−0.1865	1				
Cul_distance (9)	0.1058	0.1032	−0.0225	−0.0251	−0.2130	0.0838	−0.0006	0.0614	1			
Market Distance (10)	0.2995	0.2803	−0.0738	−0.1072	0.2959	0.4977	0.0135	−0.3302	−0.2715	1		
Resource Distance (11)	−0.1511	−0.1660	0.0226	0.0235	0.3270	−0.1449	−0.0035	0.0260	0.1409	−0.2012	1	
Knowledge Distance (12)	0.3193	0.3891	−0.0493	−0.0970	0.1145	0.1013	0.0429	−0.0929	−0.1200	0.1219	−0.1004	1

Table 5
Tobit regression analysis showing the impact of locational distance measures on the value of inbound CBA in India during 1990–2020.

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coff.	*p*-value	Coff.	p-value	Coff.	p-value	Coff.	p-value	Coff.	p-value
Control variables										
Ex.Rate	−2.495	0.442	−0.784	0.783	−2.306	0.413	−3.135	0.266	−1.69	0.591
Taxburden_T	1.692*	0.070	1.710*	0.072	1.715*	0.068	1.642*	0.073	1.705*	0.071
Geo_Distance	5.881***	0.0004	2.357	0.217	6.041***	0.001	−5.214	0.196	−6.324	0.138
Findepth_A	0.006	0.356	0.001	0.873	0.005	0.367	0.005	0.406	0.001	0.863
Inflation_T	−2.615	0.420	−2.540	0.431	−2.641	0.416	−6.407*	0.065	−5.906*	0.093
Inst_Distance	−76.238	0.327	−22.794	0.773	−76.618	0.325	−56.365	0.466	−17.380	0.825
Cul_distance	−2127.63***	0.000	−378.595	0.504	−2278.6***	0.000	−1810.92***	0.000	−692.108	0.341
Independent variables										
Locational advantage Distance measures										
Market Distance			2.453***	0.0003					2.066***	0.003
Resource Distance					0.0315	0.724			0.066	0.461
Knowledge Distance							0.0001***	0.003	0.0001**	0.016
Obs.	921		921		921		921		921	
Log-likelihood	−1132.135		−1125.23		−1132.072		−1126.586		−1121.86	
Chi2	721.813***	0.000	729.993***	0.000	720.988***	0.000	735.172***	0.000	736.711***	0.000
Pseudo R2	0.2676		0.2721		0.2676		0.2709		0.2739	
Constant	−166.211***	0.03	−147.165*	0.059	−169.076**	0.029	−49.500	0.557	−54.837	0.531
Country FE	Yes		Yes		Yes		Yes		Yes	
Year FE	Yes		Yes		Yes		Yes		Yes	

Note: *, **, *** represent significance at 10%, 5%, and 1% levels, respectively.

Table 6
Negative binomial regression analysis showing the impact of locational distance measures on the number of inbound CBA in India during 1990–2020.

	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coff.	p-value	Coff.	p-value	Coff.	p-value	Coff.	p-value	Coff.	p-value
Control variables										
Ex.Rate	−0.745	0.354	−0.437	0.584	−0.746	0.351	−0.778	0.329	−0.498	0.516
Taxburden_T	0.565	0.244	0.536	0.250	0.556	0.247	0.553	0.249	0.481	0.262
Geo_Distance	1.470***	0.000	0.255	0.605	1.309	0.002	−0.439	0.636	−1.271	0.182
Findepth_A	−0.0005	0.768	−0.003	0.117	−0.0004	0.810	−0.0004	0.830	−0.002	0.136
Inflation_T	−0.695	0.387	−0.624	0.430	−0.631	0.431	−1.187	0.150	−1.001	0.211
Inst_Distance	−68.369***	0.005	−51.23**	0.035	−66.205***	0.006	−65.909***	0.006	−52.136*	0.027
Cul_distance	−1094.32***	0.000	−574.68**	0.023	−945.64***	0.000	−1038.17***	0.000	−501.889*	0.072
Independent variables										
Locational advantage Distance measures										
Market Distance			0.764***	0.000					0.696***	0.001
Resource Distance					−0.032	0.311			−0.018	0.566
Knowledge Distance							0.00002**	0.021	0.00001*	0.072
Obs.	921		921		921		921		921	
Log-likelihood	−925.873		−918.578		−925.370		−923.056		−917.101	
Chi2	1451.63***	0.000	1487.84***	0.000	1460.87***	0.000	1481.484***	0.000	1546.821***	0.000
Pseudo R2	0.2063		0.2119		0.2063		0.2093		0.2133	
Constant	−50.669	0.192	−40.929	0.273	−49.058	0.203	−30.986	0.430	−21.499	0.543
Country FE	Yes		Yes		Yes		Yes		Yes	
Year FE	Yes		Yes		Yes		Yes		Yes	

Note: *, **, *** represent significance at 10%, 5%, and 1% levels, respectively.

deals between India and various home countries. We find a negative coefficient for resource distance, indicating that an increase in the unit of resource distance results in a 0.018 unit decrease in the number of inbound CBA deals in India. This is however statistically insignificant ($p > 0.1$), as expected. Similarly, knowledge distance also has a positive and statistically significant ($p < 0.1$) coefficient, implying that an increase in this distance leads to a 0.00001 unit increase in the number of inbound CBA deals in India.

5. Discussion of results

We examine the impact of locational advantage distance measures impacting India's inbound value and the number of CBA activities by gathering 921 country-pair-year observations during 1990–2020. We aimed to examine the impact of various country-level

locational advantage distance measures on India's inbound CBA activities. We applied market distance, resource distance, and knowledge distance measures to test the impact on the number and value of inbound CBA deals. We find market distance positively impacts the CBA value and number that India as a host country receives. This indicates that even though the home country's market is much larger than India, India's growth potential is attracting the MNEs to undertake more CBA activities with a larger value. Our argument is based on earlier evidence provided by Zheng (2009) who showed that India's inflow of FDI is determined by its market growth; similarly, the FDI inflow of 10 Asian countries was to seek the market in the host countries (Wadhwa & Reddy, 2011). Primarily, the existing studies have provided evidence of EE firms' outbound CBA activities to seek a market in host countries. EE-MNEs undertake an increased number of CBA activities in DE and other EE to seek a market in host countries (Deng & Yang, 2015). Similarly, Chinese and South African firms also seek larger markets in host countries in their outward FDI (Anwar & Mughal, 2017; Buckley & Munjal, 2017); however, they do not seek a market in African countries (Gunessee & Hu, 2021). We are the first to provide evidence on how India's market matters to the acquiring firms from various home countries through the CBA internationalization route.

Our second locational advantage distance measure, i.e., resource distance, has a positive (negative) insignificant impact on CBA value (number). We expected resource distance measures to have no significant impact, and as expected, we found the same having no significant impact on the CBA value and number. It is possibly because MNEs may not find complementary resources that India possesses. In contrast, 10 Asian host countries receiving FDI flow were determined by their natural resources (Wadhwa & Reddy, 2011). The natural resources matter for both the inflow and outflow of CBA activities of the Asian EEs (Liang et al., 2018). Moreover, EE-MNEs prefer to undertake CBA activities when the EEs have abundant natural resources (Buckley & Munjal, 2017; Deng & Yang, 2015). For instance, Chinese firms seek natural resources from African countries (Gunessee & Hu, 2021) and in other host countries (Buckley et al., 2007).

As expected, knowledge distance is found to have a positive impact on CBA value and number. This finding is similar to the results of Singhania and Gupta (2011), who provided evidence of the significant impact of the patents registered in India on its FDI inflow. Moreover, the strategic assets of 10 Asian economies have positively influenced their FDI inflow (Wadhwa & Reddy, 2011). Despite the minimal impact of knowledge distance on India's inbound CBA value and number, India has increasingly been participating in R&D and acquiring patents in recent years. This has led to a contraction of knowledge distance and even improved knowledge that India possesses recently compared to home countries. Our findings are unique compared to the existing literature. Extant knowledge suggests that MNEs from the EE do not seek strategic assets from other EE markets, even though those host markets are increasingly improving their knowledge through innovations (Buckley & Munjal, 2017). Moreover, EE-MNEs prefer host countries with stronger strategic assets to undertake more CBA activities (Deng & Yang, 2015). Moreover, Indian pharmaceutical firms seek strategic assets in a DE (Jayanthi et al., 2016).

The existing literature shows that EE firms internationalize through CBA activities and target firms in advanced countries in order to benefit from locational advantage (Buckley et al., 2016; Buckley & Munjal, 2017; Dikova et al., 2019). Given this background, we are the first to show how locational distance measures impact home country firms targeting Indian firms. We provide evidence to support our hypothesis that India's market size and growing knowledge are perceived to provide greater locational advantages that it offers to attract home country firms for undertaking CBA activities. We confirm that MNEs undertaking CBA activities in target Indian firms seek growing market potential and knowledge.

6. Conclusion and policy implications

With the increasing importance of the CBA activities of EEs, the evidence on what makes such emerging host countries attractive for home country firms is sparse. In this background, we examined major locational advantage measures, namely, market, resource, and knowledge distances, affecting the value and number of India's inbound CBAs. We hypothesized that market and knowledge distances positively affect India's inbound CBA value and the number of deals. On the other hand, we also hypothesized that resource distance does not play a significant role. We sourced inbound CBA deal data from the Thomson Reuters Eikon database covering the 1990–2020 period, with 47 home countries acquiring Indian targets during the 24-year period of our study. Our final sample includes 921 country-pair-year observations that underwent tobit and negative binomial regression models to test our hypothesis.

We found that market and knowledge distances positively impact the value and the number of India's inbound CBA. Moreover, resource distance does not play any role, as expected. The results indicate that India's market potential to grow is an attraction to foreign MNEs. As even the market distance is larger, foreign MNEs are undertaking CBAs with more value and in greater numbers targeting Indian firms. This implies their strategic viewpoint regarding the growth potential of India for their CBAs. Furthermore, India has reduced its knowledge distance from its home countries and improved its knowledge base in recent years. This has positively influenced MNEs to seek knowledge from Indian target firms.

To this end, our study contributes to the literature on locational advantage theory, highlighting the role of locational advantage distance measures between home and host countries, and providing evidence to support India's market and knowledge distance matters to MNEs targeting its firms through CBA. Additionally, we add knowledge on emerging markets' locational advantage that impacts the value and the number of CBA activities. We also add knowledge to show the importance of changing the perspective from outbound to inbound CBA activities of the EEs. This is very significant when one wonders about the factors that make a leading EE like India attractive to foreign investors.

Our results are helpful to firms involved in cross-border mergers and acquisition activities with Indian target firms to understand to what extent their value and frequency of deals get impacted by the locational advantage distance measures. It is beneficial for scholars and researchers to get a different perspective on outbound to inbound CBA activities. Furthermore, the results allow policymakers to understand how economic growth and knowledge matter for potential investments. We strongly recommend policy reforms to

encourage R&D to enhance the knowledge base of the EEs, India in particular. This will attract more MNEs to enter India and help witness progress in the Make-in-India program. Further research can be planned by covering various other EEs in the study sample and hence making useful contributions to the extant literature. We also propose to consider the knowledge and further examine whether these results differ among sectors or industries.

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Data availability

Data available on request from the authors.

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