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Cross Border M&As in Emerging Economies: Evidence from Indian Trends and Future Directions

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Abstract: The global reforms in the last two and half decades have resulted in the adoption of different growth and expansion strategies by enterprises in the emerging economies. In this backdrop, Indian enterprises have been undertaking restructuring exercises primarily through M&As to make their presence felt even across the borders. This new trend of cross-border mergers and acquisitions (CBMAs) activity occurred in India with the advancement of liberalization and globalization process. This paper has been successful in exploring and documenting the evolution and trends of CBMAs for the period of 1990-2011 and analyzes the emerging patterns of cross-border engagement of Indian enterprises with a comparative domain to unearth the reasons and future directions. Direction from this paper indicates that firms from emerging countries like India go for international diversification to obtain intangible assets and resources which they do not possess.

Keywords: Mergers, acquisitions, emerging economies, India, trade

1. Introduction

During the 1980s and 1990s, the global industrial landscape had been completely redrawn by the forces of globalization, deregulation, and unprecedented technological advancements. Corporate enterprises have responded to the competitive pressures unleashed by these forces through extensive repositioning activities involving corporate restructuring in general and mergers and acquisitions (M&As) in particular. Indeed, the growing size and importance of cross-border mergers acquisitions (CBMAs) amongst various economies has increased the competition between countries to attract investments and hence the leverage of the investing corporations. However, in the Indian context, most of the companies and business groups would seem to have been caught unaware initially by the momentous and rapid changes brought about by the economic reforms. The reforms process initiated by the Indian Government since 1991 has resulted in the adoption of different growth and expansion strategies by the corporate enterprises (Kar, 2006; p 1). In this backdrop, Indian corporate enterprises have undertaken restructuring exercises primarily through M&As to create a strong presence and position even across borders. In the domestic market, this process of M&As has further been hastened by the arrival of foreign competitors as they have discovered India, a prime destination for their investments (Kar, 2006; p 1).

In fact, since 1991 Indian government has deregulated key sectors of the economy including telecom, insurance, pharmaceuticals, etc., making India a serious contender for foreign investments. Due to perceived business opportunities, all major corporate players across the world started considering India a major market for their expansion and growth. As a result, during the past two decades, India has consistently posted a positive trend in foreign direct investment (FDI) as has been observed from the following figure 1. The FDI inflows got the maximum momentum in 2008 with the value of $ 47 138 million worth of investments in the last two decades. Another interesting feature is that the pattern of movements of both the trends (FDI Inflows and Inbound M&As) are in the same direction. Apart from being a low-cost center for operations, demographic diversity, cultures, consumer segments, etc. are some of other attractions for foreign companies focusing India. However, the key driver of inbound deals has remained to be the access to new markets in India (Kar, 2013). Also, the growing sectors like finance, banking, IT, telecom, etc. in the rising Indian economy attract foreign investors to explore and expand.

While discussing trends and directions of M&As in the Indian context, we are aware of the remarkable difference between CBMA flows from developing countries to developed countries and those from developed countries to developing countries. For example, CBMA activities involving firms from a developed country are likely to possess monopolistic and internalization advantages compared with the firms from a developing country. While firms from developed countries may be motivated to engage in CBMAs to exploit their own resources abroad, firms from developing countries may engage in border crossing activity to explore the possibility of expansion.

For India, in fact, outbound CBMAs were almost non-existent before 2000. However, the border crossing activity by the Indian Inc. started gaining momentum since 2000 when the value of deals reached $589 million followed by $1875 million in 2001(figure 2). This was the period when Tata Tea acquired Tetley and created history by becoming the first Indian company to successfully execute leverage buy out deal. Indeed, M&As in the developed countries involving firms from emerging economies such as India and China may be motivated to obtain intangible assets and resources which they do not possess. International diversification comes when it allows firms to increase the scale on which intangible assets can be used and to exploit technology currently used only in the home market (Davis et al., 1990). These assets include superior marketing skills, product differentiation, patent-protected technology, superior managerial know-how and economies of scale. It is thus argued that companies attempt to improve their core competencies and fill in the strategic gap by engaging in CBMA activities. Vermeulen and Barkema (2001) found that, though the initial costs of CBMA may be relatively high, the enterprises could expand their knowledge and improve the competitive advantage of the organization. Hence, in the long run, CBMAs may prove to be an important vehicle to build capacity and improve organizational performance of the firm.

This paper aims at exploring and documenting the evolution and trends of CBMAs and factors that played important roles in setting the stage for the Indian CBMAs trend during the period of 1990-2011. Further, it seeks to analyze the emerging patterns of cross-border engagement of Indian enterprises with an objective to unearth the compelling reasons for their CBMA moves. At the same point, the paper tries to shed light on the future directions of M&As of the Indian enterprises in the foreseeable future. The analysis and discussions of this study are expected to help enterprises in emerging economies including India that may intend to engage in CBMAs to calibrate their business strategy. Likewise, this paper is expected to provide the institutional players a better understanding of the situation, enabling them to coordinate and formulate policy related to M&As more effectively.

This paper is organized in six sections. The next section reviews the literature that helps us construct the foundation relating to the evolution of CBMAs in India and finding the research dimensions. A brief discussion on the underlying methodology is stated in the third section. The fourth section presents the analysis of trends and patterns of CBMAs. The future directions and implications are discussed in the fifth section. The conclusion and scope for further research are discussed in the last section.

2. Theoretical construct

Although the first wave of M&As in the world started in 1890s but M&As in India came into prominence and media took notice only in 1980s due to the hostile takeover bids, led by corporate raiders such as Swaraj Paul, Manu Chhabria and R P Goenka. In the backdrop of the liberalization process of the 1990s, Indian business houses began to feel the heat of competition. Conglomerates that had lost focus were forced to sell non-core businesses that could not withstand competitive pressures (The Tatas, for instance, sold TOMCO to Hindustan Lever). Corporate restructuring, largely drove this phase of M&As. Many corporate groups like R.P. Goenka, Vijay Mallya and Manu Chhabria have used M&A strategies for aggressive growth targets (Kar, 2006; p 8). A review of the extant literature indicates towards two stages of development of Indian M&As that are documented in the following sections[1].

Pre-1990 (Before and after Independence)

M&As have played an important role in the transformation of the industrial sector in India since the Second World War period. The economic and political conditions during the Second World War and post-war periods (including several years after independence) gave rise to a spate of M&As (Kothari 1967; p 33). The inflationary situation during the wartime enabled many Indian businessmen to amass income by way of high profits and dividends and black money. This led to the wholesale infiltration of businessmen in the industry during war period giving rise to the hectic activity in stock exchanges. There was a craze to acquire control over industrial units in spite of swollen prices of shares. The practice of cornering shares in the open market and trafficking of agency rights with a view to acquiring control over the management of established and reputed companies had come prominently to light. The net effect of these two practices, viz. acquiring control over ownership of enterprises and acquiring control over managing agencies, was that, a large number of concerns passed into the hands of prominent industrial houses of the country. As it became apparent that India would be gaining independence, British managing agency houses gradually liquidated their holdings at fabulous prices offered by the Indian business community. Besides the transfer of managing agencies, there were a large number of cases of transfer of interests in individual industrial units from British to Indian hands. Further, at that time, it used to be the fashion to obtain control of insurance companies, for the purpose of utilizing their funds to acquire substantial holdings in other companies. The big Indian business houses also floated banks and investment companies for the furtherance of the objective of gaining control over established concerns (Kar, 2004).

After the independence of India in 1947, a large number of M&As occurred in industries like jute, cotton textiles, sugar, insurance, banking, electricity and tea plantation. It has been found that, although there were a large number of M&As in the early post-independence period, the anti-big government policies

[1] Availability of research literature about Indian M&As was very limited. Further, due to the colonial past, the picture was not too clear about pre-independence times. Most of the books and literature dealt about history and evolution of mergers and acquisitions in US and UK. Even traces of France, Japan etc could be found.

and regulations of the 1960s and 1970s seriously deterred M&As. This does not, of course, mean that M&As were uncommon during the controlled regime. The deterrent was mostly to horizontal combinations that resulted in the concentration of economic power to the common detriment. There were many conglomerate combinations. In some cases, even the Government encouraged M&As; especially for sick units. Further, the formation of the Life Insurance Corporation (LIC) and nationalization of the life insurance business in 1956 resulted in the takeover of 243 insurance companies. There was a similar development in the general insurance business. The National Textiles Corporation (NTC) took over a large number of sick textiles units (Kar, 2004).

Further, between 1951 and 1974, a series of governmental regulations were introduced for controlling the operations of large industrial organizations in the private sector. Such regulations influenced the growth strategies adopted by the companies considerably. Some of the important regulations were like Industries Development and Regulation Act, 1951, Import Control Order, 1957-58, Monopolies and Restrictive Trade Practices Act, 1969, and Foreign Exchange Regulation Act, 1973. These regulations along with other policy changes like nationalization of banks in 1969 influenced the pattern as well as the pace of diversification undertaken by different categories of companies in India (Kar, 2004).

Due to the existence of strict government regulations in the past, Indian companies were forced to look for new areas where capabilities are difficult to develop in the short run. In the pursuit of this growth strategy, they often changed their organization and basic operating characteristics to meet the diversified businesses and management scenario. In a study by Prahalad and others (1977), it has been found that, Indian enterprises in both, the private and public sectors are much diversified. This diversification led to M&As. They also found that India has a high percentage of unrelated diversifiers as compared to the USA, UK, France, Germany and Italy (Kar, 2006; p 50). The work of Rao and Rao (1987) is one of the earlier attempts to analyze mergers in India from a sample of 94 mergers orders passed during 1970-86 by the MRTP Act, 1969. Besides examining the nature and motives of concerned parties, this study also indicates the effectiveness of MRTP Act by highlighting reasons given by the Government for approving or rejecting the merger proposal.

Post-1990

The M&As scenario have started changing in India after the introduction of the liberalization process in 1991. Government regulations on the growth of M&As were reduced. Several measures were taken by the government that includes delicensing, dereservation, MRTP Act relaxations, liberalization of policy towards foreign capital and technology led to a structural transformation of the Indian industries. This industrial transformation has provided a launch pad for the corporate enterprises to grow and expand through M&As strategy. It can be observed that prior to the mid-1990s, the M&As scenario was dominated by domestic deals, later on there is an increasing trend of cross-border deals within India. This gives a hint of a large number of MNCs have used CBMAs to enter into Indian market and strengthen their presence therein, and, as a result, around 40 percent of the FDI during the early phase of economic reforms came into the country through CBMAs (Kumar, 2000; Saha, 2001). Analyzing the size, growth and presence of some leading corporate groups in India, it has been observed that these groups employed M&As strategically to grow and expand. Corporate groups like R.P. Goenka (RPG), Vijay Mallya (UB) and Manu Chabria Group have applied M&As strategy aggressively to grow. The Ajay Piramal group has almost entirely been built up by M&As. Further, M&As have significantly contributed to the growth of south based Murugappa group[2]. Other groups\companies whose growth has been substantially contributed by M&As in the recent past, include Hindustan Lever, Ranbaxy, Tata group, Stertite group, HCL Technologies, Glaxo India and Sun Pharmaceuticals Limited.

In the post-1990 period, several researchers have attempted to study M&As in India. Some of the prominent studies are; Beena (1998), Roy (1999), Das (2000), Saple (2000), Basant (2000), Kumar (2000) and Kar (2005). A study by Beena (1998) is one of the earlier attempts to analyze mergers in the post-1991 regime. Though the study examines the trends in mergers in India over 1974-1975 to 1994-1995, a deeper analysis is done with respect to mergers in the private corporate manufacturing sector during 1990-94 for a sample of 45 mergers. Saple (2000), analyzes a sample of 36 firms involved in mergers over the period l992-95 to identify the characteristics of the acquirer and acquired firm with respect to other firms in the industry.

Roy (1999) analyzes M&As activity based on CMIE data from September 1995 to August 1997. The study characterizes mergers in terms of their type and attempts to identify the likely causes behind this form of restructuring apart from following case study approach. Basant (2000) analyzes mergers over 1991-97 to find out nature, causes and distribution of mergers by broad industry group. Another study by Kumar (2000) deals exclusively with multinational enterprises and mergers in India for a period of 1993-2000 to identify motivating factors behind mergers by MNCs and industrial composition of such activity. A large number of MNCs has used the route of M&As to enter into Indian market and strengthen their presence therein, and, as a result, around 40 percent of the FDI during the early phase of economic reforms came into the country through cross-border M&As (Kumar, 2000; Saha, 2001). The study of Kar (2005) analyzed the trends of M&As of the Indian industry from 1990-91 to 2000-01 by developing a database of Indian M&As for the entire period of study[3]. The study also successfully found the types, causes, motives and impact of Indian M&As. Several researchers including Beena (1998), Saple (2000), Das (2000), Bhaumick and Selarka (2008), Jayadev, M. and Rudra Sensarm (2007), Anand, Manoj and Jagandeep Singh (2008), Mantravedi and Reddy (2008) and Kar and Sony (2011) analysed impact of M&A on firm performance in India. However, authors of this paper could not found studies delineating on CBMAs in India other than few occasional papers from Reserve Bank of India (RBI).

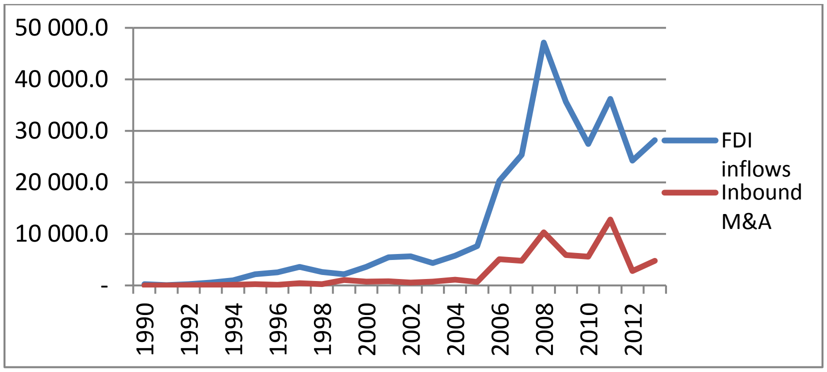
Even though Indian M&A scenario is still on a smaller scale, a substantial proportion of FDI came through this route during the period of study as it thought to be able to achieve the objectives in a better way compared to Greenfield investment (figure 1 & 2). The impetus for the enterprise to engage in CBMAs is identified as seeking resources, strategic assets, markets and efficiency (Behrman, 1972). The entry through M&As will enable the enterprises to achieve these targeted critical resources in a simpler and shorter way compared to the Greenfield investments, which will take much more time and effort. The resource seekers which are more interested in getting the physical and labour resources at cheaper rates will be better off through M&As compared to Greenfield investments since they will be able to use the already established resources of the partner firm. This is the same for strategic asset seekers as they can very well strengthen or diversify their product portfolio through acquiring important brands of their partner and make the firm more competitive. Regarding the other two types of investors i.e. the market

[2] In 1996, about half of its turnover of Rs 2500 crore came from companies acquired over the past decade and half. *The Hindu*, January 5, 1996.

[3] The data bank is prepared quoting from CMIE, DCA and SEBI sources.

seekers and efficiency seekers, the advantages of market power and efficiency creation through M&As is well documented (Behrman, 1972; Dunning, 1993).

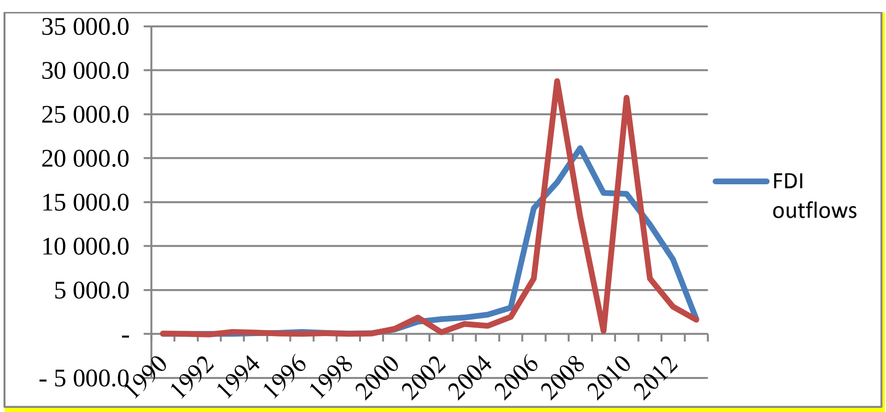
Figure 1. Trend of FDI inflows and inbound M&As, 1990-2012 (in Million US$)



Source: Based on UNCTAD data.

The increasing level of investment through CBMAs and its emergence as a major component of FDI has led us to think why firms are engaging in the border crossing activity instead of establishing subsidiaries or other arrangements for propelling growth. Further, in case of India, CBMAs has become one of the major components of FDI as has been observed from figure 1 and 2. Further, Bhoi (2001) states that most of the empirical studies on M&As focus on domestic M&As and have used data from the US and the UK, where M&As have been prevalent since the beginning of the last century. The conclusions drawn from these studies may not be accurate in the case of developing countries and economies in transition. Secondly, the dearth of research literature also helped it remain an unexplored area of study. Hence, this paper aims at bridging the research gaps on the areas of Indian CBMAs by starting from exploring and documenting the evolution and trends of CBMAs. Further, an attempt has been made to explore the factors that played important roles in setting the stage for the Indian CBMAs trend during the period of 1990-2011. This paper also seeks to analyze the emerging patterns of cross-border engagement of Indian enterprises. At the same point, the paper tries to shed light on the future directions of M&As of the Indian enterprises in the foreseeable future.

Figure 2. Trend of OFDI and outbound M&As, 1990-2012 (in Million $)



Source: Based on UNCTAD data.

3. Methodology

We have adopted a hybrid methodology to explore the above-listed objectives of the paper. In order to develop this, we have adopted a multi-theoretical framework from the limited available literature to formulate our arguments and to find the research objectives. Here, we have applied hybrid methodology as research designs cannot be pre-specified, but ‘emerge, unroll, cascade, or unfold during the research process’ (Lincoln and Guba, 1985: 142) and it would be incongruent to specify these designs in advance. The adoption of this approach is based on the reason that research studies usually include a number of different research questions, so a research method appropriate for one question may be inappropriate for another like our study. The other reason for using hybrid methods is that it enables triangulation to be used. Easterby-Smith et al. (2002) refer to data triangulation as the collecting of data over different times or from different sources. So not only does the use of hybrid methods assist in data triangulation, it helps to balance out any of the potential weaknesses in each data collection method. But whichever methods are used, in the final analysis, Oakley’s argument is seemed to be valid: ‘all methods must be open, consistently applied and replicable by others’ (Oakely et al; 1999)**.** Understanding the evolution of CBMAs in India requires the history of M&As as CBMAs are an integral part of it. Hence, in the first place, we carried out a survey of available literature and specifically the content analysis of available studies as describe above to document the evolution of CBMAs and to record significant movements in the process.

Secondly, in order to analyze the trend and patterns of CBMAs, data on Indian M&As is needed for the period of study. There is an acute deficiency of firm-level data with respect to M&As in India. Accordingly, we have collected data from the various sources and different time periods. Only the Securities and Exchange Board of India (SEBI) maintains a limited database on M&As relating to the companies listed on Indian stock exchanges. This, however, provides a partial picture of M&As in India (Bhoi, 2000; Kar, 2005). Data for this study were collected and extracted largely from the monthly review of the Indian economy, (a publication of CMIE, Bombay) and CMIE Prowess. It provides information on M&As regularly from 1995. Websites of Capital market-online Data Bank, SEBI, MCA (earlier DCA), BSE and NSE were also used for data collection and data filtration. Apart from that, we used RBI, REUTERS, and IIFL websites to gather data, withdraw data and filtration of it from selected reports and information. By using this method, a data bank of Indian M&As for the period of study (1990-2011) has been created and used for analyzing the trends and patterns of CBMAs in India. After several stages of cleaning and filtration of the data, a total of 6876 M&As including CBMAs have been documented in the constructed data bank (table 1). Simultaneously, the researchers attempted to extract data on the value of deals for the period of study for a more rigorous analysis. However, it was not possible to create a database of deal values due to unavailability of the official source of M&A data as is prevalent in the developed countries and inconsistencies in reporting deal values in different media. Hence, deal values could not be included in the analysis of CBMAs. The method of least squares is applied to find out the trends of Indian M&As. Similarly, types and patterns of M&As have been identified and analyzed from the constructed data bank and presented through tables, graphs and charts wherever necessary for meaningful and logical interpretations. We have used MS Excel and SPSS for this study.

4. Analysis and findings on evolution

The issue of M&A activities in India has occupied a lot of attention of Indian policy makers for many years. Contrary to the popular opinion of 'opening of floodgates idea' in the post-1990 period, what took place was a gradual process of changes in policies paving the way for adoption of inorganic growth strategies (Kar, 2004; Kar and Soni, 2011). The table below depicts the data on the total number of inbound, outbound and domestic deals that took place during 1990-2011. A total of 6876 M&As including CBMAs has been documented in India from 1990-2011 as given in the methodology. Several measures were taken by Government which includes delicensing, dereservation, legislation reforms including the introduction of SEBI takeover code, liberalization of policy towards foreign capital and technology led to a structural transformation of the Indian industries which have further facilitated M&As. Further, M&A activity majorly involved domestic deals as it amounts to 84.3 percent in comparison to 15.7 percent CBMAs (table 1). Increasing globalization and liberalization across the globe has energized the government of different countries including India to facilitate border crossing activities of their firms by engaging in CBMAs.

Table 1. Total No. of M&A deals in India, 1990-2011

Type of deals	Frequency	Percent
Inbound	835	12.1
Outbound	247	3.6
Domestic	5,794	84.3
Total	6,876	100.0

Source: Authors' constructed data bank.

4.1. Inbound M&As in India

The constructed data bank of this study documented 835 inbound deals from 1990-2011 as shown in table 1. The analysis of its trends over the period of study and patterns reveals some interesting phenomena having implications for further research in the area.

Inbound investment through M&As in India started from the year 1994. There was a sharp increase in the year 1999 with a total of 217 deals followed by 241 deals in the year 2000. However, the trend decreased for the next few years from 2001-2010. One of the hypotheses explaining the sharp increase in 1999 and 2000 is that American and European firms diversified the destination of their investment just after the 1997-98 Asian crisis and the Indian market was the appropriate choice for the post reforms regulatory environment and other conducive policy initiatives that have already set the stage. Though Indian rupee has depreciated since August 1997, there has been much greater depreciation in East Asian currencies following the outbreak of the East Asian crisis in mid-1997. This higher depreciation has eroded the competitiveness of Indian products overseas by making them more expensive. The process of restructuring of Indian industry did not commence immediately after liberalization. It was the industrial slowdown since 1996, which squeezed the profit margins of Indian corporate entities and forced them to restructure their operations to achieve greater competitiveness.

Growth in the industrial sector was further slowed down in 1997-98 at a disappointing rate of just 4.1 percent (lowest after 1992-93). Export growth has been sluggish since 1996-97, particularly 1998-99 was disappointing. Further, an enabling policy improvement has come about through the formulation of new takeover code in 1997(Kar, 2006; p 70-71). Inbound deals remain flat almost for a decade since 2001. Inbound M&As again picked up from the year 2011 with a total of 125 deals and is expected to rise for the coming years (table 2 and figure 3). The sudden increase in inbound deals in 2011 indicates to the fact that the SEBI Takeover Code 1997 was replaced by New SEBI Takeover Code 2011[4]. And it seems that Indian corporate enterprises were in a hurry to take advantage of the SEBI Takeover Regulations 1997[5] (Kar, 2013).

Table 2. Year-wise inbound M&As in India, 1994-2011

Year	Inbound	Percentage	Year	Inbound	Percentage
1994	2	0.2	2004	31	3.7
1996	3	0.4	2005	27	3.2
1997	4	0.5	2006	34	4.1
1998	14	1.7	2007	37	4.4
1999	217	26.0	2008	12	1.4
2000	241	28.9	2009	16	1.9
2001	28	3.4	2010	18	2.2
2002	13	1.6	2011	125	15.0
2003	13	1.6	Total	835	100.0

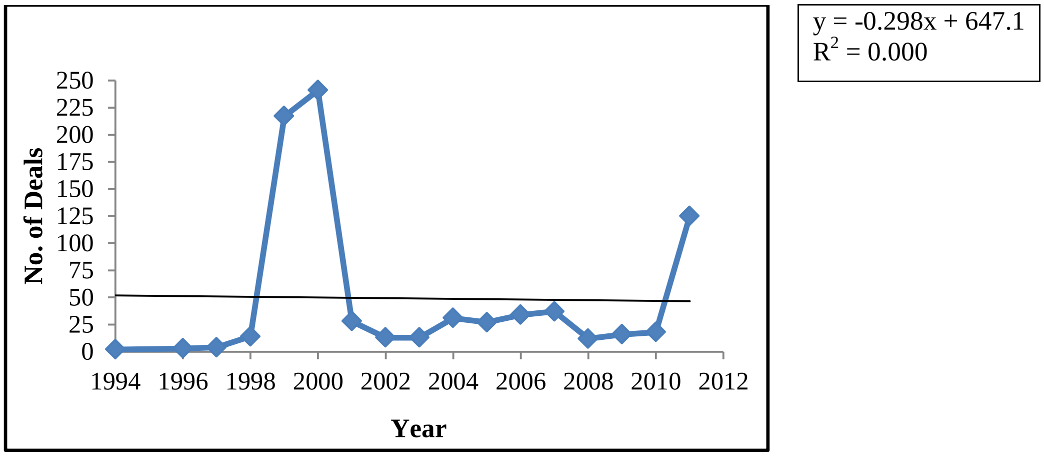
Source: Authors' constructed data bank.

Inspired by the growth opportunities in India, firms from the most developed countries are targeting Indian enterprises. A continent-wise distribution of inbound M&As prominently shows that North America has accounted for the largest percentage of M&As with 32.81 percent, followed by Europe 28.86 percent of the total. Interestingly, a higher number of inbound M&As took place from Africa than Asia (102 against 99). The tax advantage of Mauritius seems to have played a role in making it a springboard to channel investment in India (table 3). For the global MNCs, India offers them resources like cheap but talented labor, advanced technologies and lowest-cost suppliers of inputs, vast capital markets and also one of the largest markets in terms of size (Das, 2007).

[4] There was a demand to bring in a new takeover code. In this connection, SEBI, constituted Takeover Regulatory Advisory Committee (TRAC) under the chairmanship of Sh. C. Achuthan to review the SEBI Takeover Code, 1997. The recommendations of Achuthan Committee formed the basis of the New Takeover Code 2011 which came into effect from 22nd October, 2011.

[5] Under the Takeover Code of 1997, an acquirer was mandated to make an open offer if he, alone or through persons acting in concert, were acquiring 15 percent or more of voting right in the target company. This threshold of 15 percent has been increased to 25 percent under the New Takeover Code of 2011. Therefore, now the strategic investors, including private equity funds and minority foreign investors, will be able to increase their shareholding in listed companies up to 24.99 percent and will have greater say in the management of the company. An acquirer holding 24.99 percent shares will have a better chance to block any decision of the company which requires a special resolution to be passed. The promoters of listed companies with low shareholding will undoubtedly be concerned about any acquirer mis-utilising it. The Takeover Code of 1997 required an acquirer, obligated to make an open offer, to offer for a minimum of 20 percent of the 'voting capital of the target company'. The Takeover Code of 2011 now mandates an acquirer to place an offer for at least 26 percent of the 'total shares of the target company', as on the '10th working day from the closure of the tendering period'.

Figure 3. Year-wise inbound M&As in India



Source: Authors' constructed data bank.

Table 3. Continent wise inbound M&As in India

Continents	Inbound	Percentage
Asia	99	11.85
North America	274	32.81
Africa	102	12.21
Europe	241	28.86
Australia	7	.83
NA	82	9.82
Joint Venture	30	3.59
Total	**835**	**100**

Source: Authors' constructed data bank.

India's attractiveness and importance as a lucrative emerging market could be seen from the fact that in spite of the global financial crisis in 2008, India soon bounced back to M&As levels of 2006-07, unlike North America and Europe. However, concerns have been raised as to whether the openness to trade and foreign investment makes developing countries more vulnerable to exploitation by foreign investors (Evenett, 2002). If so, India will remain prone to exploitation and external shock in the years to come.

Table 4. Frequency of inbound M&As from Asia

Asia	Frequency	Percent	Asia	Frequency	Percent
Bangkok	1	1.2	Korea	5	5.9
Bahrain	2	2.3	Kuwait	2	2.3
China	3	3.5	Malaysia	2	2.3
Cyprus	1	1.2	Philippines	1	1.2
Dubai	5	5.9	Saudi Arabia	1	1.2

Hong Kong	1	1.2	Singapore	24	28.2
Iran	1	1.2	Sri Lanka	1	1.2
Israel	1	1.2	Thailand	1	1.2
Japan	30	35.3	UAE	3	3.5
		Total		**85**	**100**

Source: Authors' constructed data bank.

In a wider context, Asia has become a major center for diversification, growth, and development. These objectives are achieved through CBMA deals across the continent and from other developed continents of the world. The level of M&A activities between Asian countries has been increasing from the last decade and is expected to reach new highs in the years to come. To depict India's level of integration with the rest of Asia in terms of M&As, we have prepared table 4 to represent the frequency of inbound M&As from the Asian countries to India.

Table 4 shows that Japan has been a major investor in India completing 30 deals followed by Singapore at 24, out of 85 deals in total. A number of factors have played for a Japanese foray into the Indian markets. During the last decade, the appreciation of yen and dollar and the depreciation of the rupee against both in the last one year have probably made Indian enterprises attractive for Japan. Japanese companies have a high cash generation ratio whereas very little investment opportunities at home. With the cost of capital being very low and a large scope of growth, India has become more viable for Japanese investors to buy assets in India.[6] In 2012, Japan was second to the US as the largest investor in India, announcing a total of 20 M&A deals with an aggregate value of $5.6bn. The presence of Japanese companies in India has reached 1,072 in 2013[7]. However, the reverse is not true. The data reveals that India does not see Japan as an opportunity as compared to the other economies. Maximum deals happened through Singapore amongst the Asian countries giving a hint of the plethora of tax advantages there (table 4).

4.2. Outbound M&As

Indian CBMAs are increasing year by year because of the active participation of Indian firms in acquiring firms in the rest of the world. On the outbound front, India targeted mainly the IT, telecom and pharmaceuticals sectors. The M&As involving Tata-Corus, Tata-JLR, Hindalco-Novelis, Sun Pharma-Terapia, Airtel-Zain Africa have generated a lot of media interest (Kar, 2013). Survey of Indian CBMAs from 1990-2011 documented happening of 247 deals (table 5). Although the scale of outbound deal making is much less in comparison with inbound deals, yet the following analysis has revealed some significant implications for the Indian corporate sector.

Indian outbound deals found to be of recent origin and documented from 1999. The outbound deals picked up strength in 2006 and reached a high of 69 deals in 2007. This period saw indulgence of many large Indian industrial houses in acquiring abroad. The deals of Tata-Corus, Tata-JLR, Hindalco-Novelis, Sun

[6] As per the Indian media report http://www.livemint.com/Companies/9vbxtwH0VdBxa4dXlSFqSJ/Japanese-companies-eye-deals-in-India.html

[7] As reported in the Indian media http://www.business-standard.com/article/economy-policy/new-chamber-to-connect-kerala-smes-with-japan-114031400733_1.html

pharma-Terapia, were prominently covered by the media and analysts. The number and value of Indian CBMAs declined during 2009, from the highs of 2007 (figure 4). This was to be expected against the backdrop of a global financial crisis. With the value of most public companies declining over the period and with banks tightening their lending, opportunities for M&As in 2009 looks slim (table 5). However, as India moves into a new decade with an increased sense of economic stability and an increasing GDP growth rate, CBMAs set to pick up (Kar, 2013).

Table 5. Year-wise outbound M&As in India, 1999-11

Year	Outbound	Percentage	Year	Outbound	Percentage
1999	1	0.4	2007	69	27.9
2000	1	0.4	2008	49	19.8
2003	1	0.4	2009	16	6.5
2004	3	1.2	2010	24	9.7
2005	3	1.2	2011	42	17.0
2006	38	15.4	**Total**	**247**	**100.0**

Source: Authors' constructed data bank.

Table 5. Continent wise outbound M&As

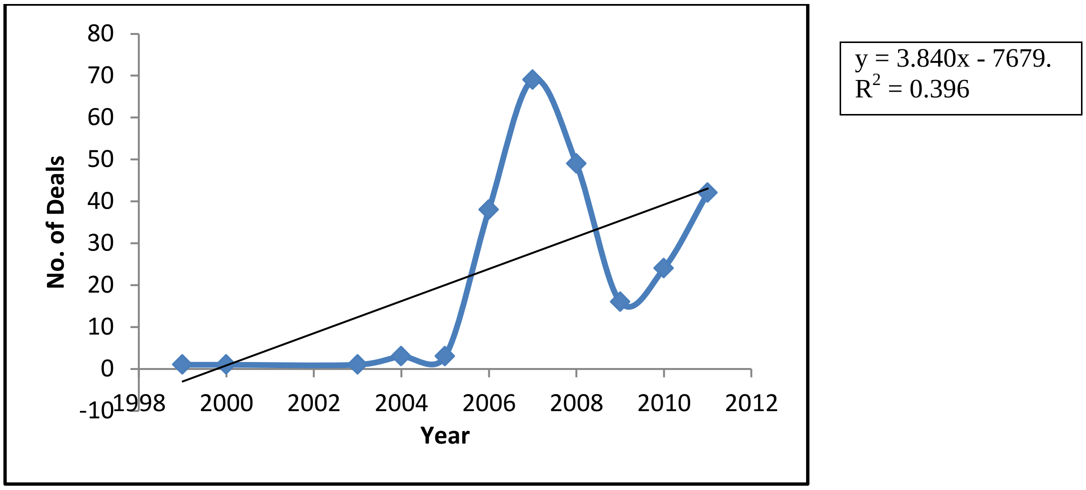
Continent	Outbound	Percentage
Asia	38	15.38
North America	99	40.08
Africa	14	5.67
Europe	76	30.77
Australia	12	4.85
South America	8	3.24
Total	247	100

Source: Authors' constructed data bank.

The way companies have achieved phenomenal growth momentum by adopting this strategy has earned them a lot of accolades. However, a scrutiny of the geographic distribution of the Indian outbound deals tells a different story. The analysis of the data reveals that maximum deals went to North America (40.08 percent), Europe (30.77 percent) and followed by developed capital markets of Asia (15.38 percent). One of the most significant findings of this pattern indicates that, Indian companies have targeted at the developed capital markets for growth and expansion (figure. 4). This is in line with the findings of Chari et al. (2008) that the return to an acquirer gaining control of a target in a developed country is significantly increased.

The data for outbound M&As from India in the rest of Asia reveals that the maximum investment was made via Singapore. A possible reason for this investment could be the tax advantages related to that country. Also, another important outcome of this data analysis is that India is not at all investing in Japan (table 6) whereas Japanese enterprises have invested in India (table 4).

Figure 4. Trend line of year wise outbound M&As in India



Source: Authors' constructed data bank.

Table 6. Frequency of outbound M&As in Asia

Countries	Frequency	Percent (%)	Countries	Frequency	Percent (%)
Bhutan	1	2.6	Malaysia	3	7.9
China	1	2.6	Philippines	1	2.6
Dubai	2	5.3	Singapore	17	44.7
Indonesia	3	7.9	UAE	3	7.9
Israel	2	5.3	Uzbekistan	1	2.6
Kazakhstan	2	5.3			
Korea	2	5.3	**Total**	**38**	**100**

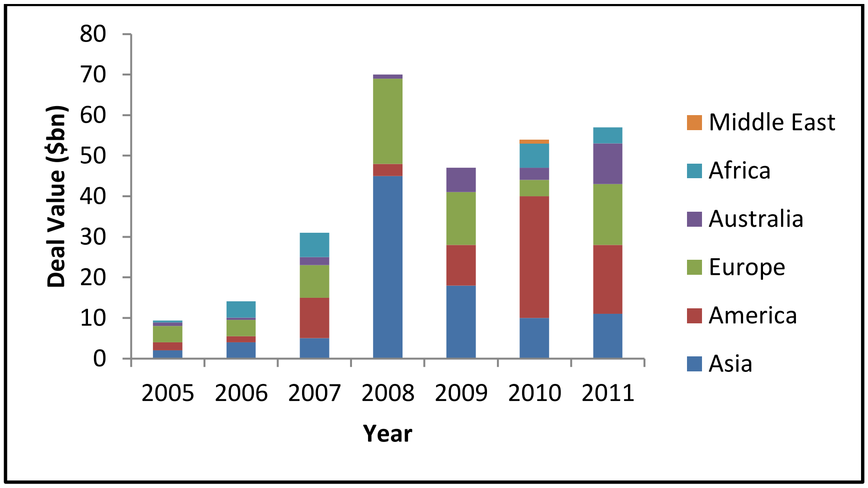
Source: Authors' constructed data bank.

4.3. Geographic patterns vis- à-vis China

Let us try to put India's M&As in perspective by comparing the patterns with that of China. In contrast to India, China has invested heavily in emerging economies in Asia, Africa, Central Asia and Latin America, largely to secure the supply of natural resources essential to keep the growth momentum in the future (figure 5). Almost half of China's outbound M&A transactions have been driven by the need to support the country's growing demand for energy and natural resources, followed by a desire to access new markets and technology, and potential capital gains.

Until 2005, China was modest in its outbound investments with just $ 9.5bn. From the year 2006, China's investment started doubling year on year, indicating sustained commitment towards outbound M&As. Till 2008-09, most of the outbound investments of China went to the emerging and developing economies of Asia. However, the trend started changing from the following year, with a maximum of its investment going to the developed economies. Since 2009, China has shifted its focus from the developing to the developed economies with increasing investment in America followed by Europe (figure 5). Further, this increased investment in the developed economies especially America is largely in the energy and power sector. China's outbound investments are rapidly increasing and driving the multi-nationalization of Chinese firms through M&As (The China Daily 2011 & 2012).

Figure 5. China's outbound M&A region-wise, 2005-11



Source: Thomson Reuters.

China's overseas investments reached $73 billion in the first nine months of the year with buyers plowing roughly one-third of the capital into deals in North America, according to a survey by private equity firm A Capital (2013). The gap between China's outbound investment and inbound investment from abroad is also closing rapidly. Outbound investment was equal to 82 percent of the inbound total in the nine months, up from 74 percent in the period last year, and A Capital estimates that the outbound investment will equal the inbound figure in three years.

5. Implications and future directions

Although several prior studies have centered around internalization theory, resource-based views, market share and efficiency; the main motives for CBMAs by companies from emerging nations remain unclear. Apart from the study of Boateng et al. (2008), which attempted to rank the motives that drive Chinese firms abroad, other studies (Deng, 2009; Rui and Yip, 2008) have only used case studies to analyze a single motive, such as a resource-based view and strategic intent (Du and Boateng, 2012). However, as noted by Boateng et al. (2008), firms, that undertake acquisitions, are not driven by a single motive but an array of motives. In the Indian case, the main driving force of Indian CBMAs is the search for top-line revenue growth through adding new capabilities and assets, product diversification and market entry (Accenture and CII Study, 2008[8]). Thus, here we suggest that future research may focus on uncovering the primary motives and their relative importance for emerging economy enterprises that engage in acquisitions abroad.

The analysis of the Indian outbound data reveals that maximum outbound deals go to the developed capital markets (table 5). In contrast to India, China has invested heavily in emerging economies in Asia, Africa, Central Asia and Latin America, mainly to secure the supply of natural resources essential to keep

[8] Mentioned in the Accenture and CII Study, High Performance through Mergers and Acquisitions: India's New Dynamics, 2008.

the growth momentum in the future (figure 5). Almost half of China’s outbound M&A transactions have been driven by the need to support the country’s growing demand for energy and natural resources, followed by a desire to access new markets and technology, and potential capital gains.

The strategy of many Indian companies for their global expansion is also distinctive. As Indian companies are relatively small by the standards of true multinationals, their cross-border acquisitions also tend to be smaller. These deals are, therefore, often carried out as part of a broader globalization drive involving a string of strategically targeted acquisitions. This is particularly the case for India’s larger corporate groups, for example, Tatas that look to strengthen specific parts of their value chain and develop integrated offerings globally. The locations of the acquisitions also reflect the strategies of India’s acquirers. Attracted by the markets and higher value offerings of developed economies, Indian companies are making the vast majority of their transactions in North America, Europe and the more developed economies in Asia, with transactions equally distributed between these locations. The findings of this paper are also supported by the findings of Chari et al. (2008) regarding the possibility of higher returns from acquisitions in developed countries. Here comes a need to examine the often cited motivation for the acquisition by these companies for acquiring “strategic assets”. It is, therefore, imperative to investigate the nature of the strategic assets that these companies target, how they integrate and absorb these assets into their operations and spillover effects from CBMAs to the parent companies at home. In addition, S. L. Sun et al. (2012) find that Chinese firms have a lower success rate (47%) in CBMAs than Indian firms (67%).What is behind the failure and abandonment of M&As remains an interesting but underexplored area of study (Dikova, Sahib, and van Witteloostuijn, 2010).

The large foreign exchange surpluses accumulated by the two countries over the years require appropriate investment channels. This causes the enterprises of the two countries to aim at the European and American enterprises with certain technologies, resources and advanced marketing systems for M&A, for instance, Lenovo acquired the PC department of IBM and Tata Group acquired Rover and Jaguar under Ford. Acquisition of the European and American enterprises, on one hand, is a shortcut to rapid development of the enterprises in China and India; on the other hand, is an inevitable choice for many industries of the two countries to transform themselves and participate in a wider international competition.

As far as inbound deals are concerned, a study by Mamoru Nagano and Yuan (2007) on cross-border acquisitions found evidence that cash-rich firms were targeted more frequently in India and China as similarly observed in the industrialized countries. With the rapid development of the two economies and relying on their innately endowed advantages in resources and population, many industries of the two countries have registered rapid growth in the cross-border acquisition market with the deal values hitting new highs consistently in recent years.

6. Discussion and conclusion

In this paper, we have made a serious effort to contribute to the literature by constructing a databank of Indian CBMAs. In the process, the evolution of CBMAs from 1990-2011 in India has been documented. The emerging trends, patterns and related implications of it have been analyzed. Importantly, the trends and patterns of both inbound and outbound CBMAs have revealed some significant findings. In the case of outbound deals, it is the developed capital markets where Indian companies are scouting for their targets. Even in Asia, they are looking for companies in the developed parts of the continent. That calls for further research as it may hint at the hypothesis that the Indian companies are adopting a shortcut strategy for growth and expansion. This may, however, not be sustainable in the future. Moreover, apart from big industrial houses and industries in Pharma, IT and Telecom, other Indian firms, particularly manufacturing ones are not so active in the outbound M&As. Many global players in machinery, electronics and transport equipment industries are good targets. However, it appears that Indian manufacturers have not capitalized on this opportunity. It may hint that some Indian manufacturers are trapped with an inertia of “import substitution” regime. Even though the economic liberalization has been promoted after 1991, the domestic market may be providing them satisfactory market share and monopolistic profits. If so, it may be less encouraging for them to go out to the global market. Further research needs to find out the reasons of non-activity in the case of manufacturing firms.

For the Indian companies, Singapore has emerged as an active destination for both inbound and outbound deals. Further research in this sphere may contribute to the study of financial networks. Integration aspects in a CBMA are much more complex and often lands in problems. It is probably not an exaggeration to assert that most CBMA deals run into trouble because of failures in the integration process. This is based on the fact that target company employees and managers tend to be unfamiliar with the language, managerial behavior and corporate custom of the acquirer. They need to be reassured even more than in a domestic context of the intentions of the acquirer. In the post-deal scenario, communications to and among the numerous additional stakeholder groups must be done. This calls for separate studies to explore this area. Finally, the recent upsurge of research interest in CBMAs undertaken by Indian, Chinese, and other emerging economy firms reveals a bigger gap in the mostly Western-centric literature. We do not even know enough about the domestic M&As within China, India, and other emerging nations due to a paucity of research (S. L. Sun et al., 2012). Therefore, we need a lot more research studies to explore the unexplored frontiers of M&As.

Besides, contributing to the literature, the analysis and discussions of this study will help Indian companies, which intend to engage in CBMAs to calibrate their strategy. It is expected that it will also provide institutional players, with a better understanding of the situation thereby enabling better coordination and formulation of policy as a number of authors examining the drivers of foreign investments have pointed out the important role of the emerging economy institutions in CBMAs (Deng, 2009; Peng, 2002, 2003; Hitt et al., 2004)

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