

Chapter One: INTRODUCTION

1. INTRODUCTION

As barriers to trade become fewer and less difficult to overcome, globalisation through mergers & acquisitions (from herein M&As) is quickly becoming an important strategic mechanism for multinationals that wish to take advantage of new markets which are rapidly emerging (Moeller and Schlingemann, 2005). In 2010 the total value of global M&A deals exceeded \$2,398 billion with a total of 42,567 deals announced. This is an increase of over 23 percent, from 2009 where the value of deals was over \$1,945 billion with the volume of deals around 39,832. This increase has highlighted the resurgence of M&A activity worldwide with emerging markets now playing an important role in the M&A market. This is also evident with the sixth merger wave beginning in 2003 and concluding in late 2007.

In the past 12 months the Americas have accounted for a total of 47 percent of the acquirer primary region, which is followed by Europe accounting for 27 percent of the acquirer region. The Asian-Pacific region accounts for 18 percent of the acquirer region, indicating the importance of these regions as hosts of M&A activity. The analysis of M&As within academia has been extensive, thorough and is still a dynamic and continuous process. Literature surrounding the area has been expansive and is widespread especially given the effects which M&As have on all proliferations of business, the stock market and the economy as a whole. M&As are a contemporary theme throughout the areas of finance and investments and are rapidly becoming prevalent throughout emerging markets as companies begin to expand operations into these growing economies. Chu et al. (2009) outline how M&As were previously a US business phenomenon for strategic growth but now have extended to emerging economies. However in contrast to the extensive research conducted on developed countries, studies involving M&As by firms from emerging markets are relatively few.

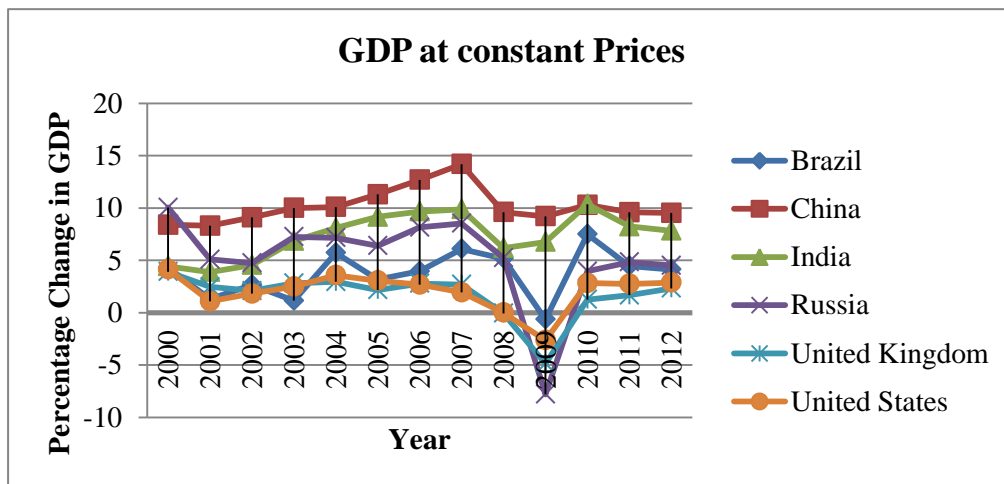
In 2009 the total value of Indian M&A purchases globally exceeded \$249,732 million, while in 2008 this figure was \$706,543 million. According to the *World Federation of Stock Exchanges* in 2009 there were 6,408 public companies listed on the two Indian stock exchanges, the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited. Between 2000 and 2010, there were a total of 1,439

announced by Indian public acquiring firms with 1,017 of these deals within India and 422 cross-border deals.

India

Over the past ten years, India has grown consistently year-on-year, with rising GDP and continuous economic growth driving the economy to the potential of becoming a global leader in the future. Indian GDP has grown from 4.4 percent in 2000 to 9.8 percent in 2007 and risen to a new height of 10.4 percent in 2010 and is predicted to stabilise at 8 percent in 2013 (*International Monetary Fund Website*). With a population of 1.2 billion people India is increasingly becoming a global leader. *Goldman Sachs Economic Research Unit* (2010) predicted that by 2050 India will be the second largest global economy with an average annual growth rate of 8.3 percent. Table 1.1.1 below outlines GDP for the BRIC countries, the UK and the US from 2000 until the predicted GDP for 2012. Over the past ten years Indian GDP has continuously been between five and ten percent. Where GDP of the developed economies of the US and UK has been much lower and was negative from 2008 until mid 2010.

Table 1.1.1: Annual GDP for the BRIC countries, the UK and the US.



Source: *International Monetary Fund Website*

Carapeto et al. (2011) discuss how economies such as Russia, China, India and Brazil are moving from closed to open market systems, allowing for inward and outward investment in these countries. This further drives the M&A activity in these countries, which is especially evident in India where M&A activity has been continuously on the rise since the economic and political liberalisation of the 1990s.

India and FDI

Carapeto et al. (2011) developed a new scoring methodology to determine a country's capability to develop and sustain M&A activity. Their methodology utilises a number of factors to develop the scoring table which include legal and political factors, economic factors, financial factors, and technological and socio-cultural factors. Using the scoring index, India scores 3.2 as it is deemed an exciting market with a large population, growing middle class and entrepreneurial business environment. The study also highlighted a number of merits for India, which included a well developed stock market and a strong availability of domestic credit from banks and the bond market. Coupled with low labour costs, low production costs, a thriving telecommunications sector. However a number of challenges were also documented for M&A activity in India including a challenging regulatory environment and unstable political environment. Yet despite these issues, their study finds that India is growing and gradually progressing in developing the sustainability of the M&A market. In comparison China scored 3.8, however challenges in the regulatory system and political environments were highlighted as shortcomings to the M&A activity in this country.

Singh (2010) demonstrates how the Indian Government began the process of liberalisation in the late 1980s and early 1990s, with the primary concentration of the reforms surrounding trade and investment policy. These reforms have resulted in enormous amounts of FDI being attracted into India, and have also increased outward FDI flows from India into developed economies. In the early years of India's reform the primary objective was to increase FDI flows into the country in order to stimulate growth. However now India has started to grow, the level of outward FDI has increased greatly with the flows into developed economies increasing at astronomical rates. Outlined overleaf in table 2.1 is from the World Investment Report in 2011 and outlines the level of cross-border M&A activity which India has been engaging in over the past four years. Table 2.1 contains the amount of purchases which India has made through M&As.

Table 1.2.1: M&A expenditure by Indian companies in USD\$ million

	USD\$ million 1995-2005 (Annual	USD\$ million 2007	USD\$ million 2008	USD\$ million 2009
(USD \$ Millions)				

	Average)			
India	\$612	\$29,083	\$13,482	\$291
Into				
<i>China</i>	\$935	-\$2,282	\$37,941	\$21,490
<i>South Asia</i>	\$620	\$29,096	\$13,488	\$291
<i>Asia and Oceania</i>	\$18,927	\$94,743	\$95,167	\$67,534
<i>Developed Economies</i>	\$25,868	\$144,830	\$105,849	\$73,975
World	\$357,132	\$1,022,725	\$706,543	\$249,732

Source: World Investment Report 2010

As can be from the table 1.2.1 M&A by Indian companies into developed economies accounted for just seven percent of total of all cross-border M&As increased in 2007 to over 14 percent of total cross-border M&As and has further increased to over 28 percent in 2010.

India and M&As

As the global financial and economic crisis began to engulf the worlds developed economies in early 2008, the Indian motoring firm Tata Motors announced its bid for Jaguar Cars in March of that same year and completed the deal in June 2008 for a record \$2.3 billion. According to *One Banker* the total value of the 8,876 deals announced by Indian acquiring companies in 2010 was valued in excess of \$350 billion. This was a rise of over 31 percent from 2009 when 8,455 M&A deals were announced and were valued at \$266 billion, of which 27.8 percent was into developed economies. While in 2009 the total value of cross-border deals by Indian acquiring firms was \$73,975 million. This was a decrease from \$105,849 million in 2008. Bertoni et al. (2011) highlight how both large and small Indian companies are engaging in outward foreign direct investment via M&A activity.

Ramakrishnan (2010) documents how recently M&As have become a viable strategy in the Indian market due to the easing of regulations and the restructuring of family-owned conglomerates and the sale of previously state-owned companies. However, similar to other Asian countries, the Indian market for corporate-control is still in the very early-stages of reform and a number of corporate governance issues are still prevalent throughout the economy, including the issue of insider-trading. This paper aims to investigate the short-term wealth effects for shareholders of Indian acquiring

firms and the differences in returns between domestic and cross-border M&A announcements following the announcement of an acquisition into a developed country. Presently while there has been some research conducted on domestic transactions little is known surrounding the announcement effect of Indian acquiring firm shareholders acquiring into developed economies. The target countries include the UK, US, France, Germany, Singapore, Australia and Canada. Hence we conduct a comparative analysis of the wealth effects from domestic and cross border deals for Indian firms to assess if there are differences or similarities in returns thereby aiming to bridge the gap in the existing literature.

Research Rationale

An abundance of literature exists in relation to cross-border M&As involving firms from developed economies acquiring abroad, especially those from Anglo-Saxon regimes. However literature surrounding M&As in emerging markets is far more limited despite the recent growth of M&As, with the majority of the present literature focusing on inward investment by firms from developed economies acquiring into emerging economies (Ramakrishnan, 2010). According to the *Goldman Sachs Global Economics Monthly*, over the past ten years the BRIC countries have grown from comprising just one-sixth of the global economy to over one-quarter of the global economy, and have contributed to over a third of the world GDP growth.

Ramakrishnan (2010) explains that the lack of published research on shareholder wealth effects following the announcement of M&As in Indian capital markets is due to difficult entry modes which existed prior to the economic and political reforms. This study aims to shed light on this important emerging economy, which is beginning to become a major player in the global M&A market. India is now becoming a global leader with significantly more regulation in comparison to China, providing a more suitable environment for multinationals.

Brennan and Verma (2009) highlight “*how the recent growth of Indian outward investment, which involves domestic enterprises participating in international capital markets and investing overseas directly, represents a dynamic aspect of India’s growing economic integration into the rest of the world.*” With an extensive proportion of this outward investment into developed countries through M&As this study is timely in its remit. Brennan and Verma (2009) investigated the outward investment path of Indian capital from 1991 to 2006. The results find that in the post-independence of India, the emergence of Indian enterprises as direct investors abroad is increasing at astonishing rates since the 1990s. Although the countries into which this investment was made was not analysed the authors estimated that the majority of the investment was into developed countries. Therefore, this study attempts to analyse M&A wealth effects of acquiring firm shareholders by Indian companies into developed countries from 2000 to 2010. We focus on acquiring firm shareholders as this can provide an indication of the effects of M&A activity in India.

One limitation of this work is that the target countries analysed is confined to the US, the UK, Australia, Singapore, Canada, France and Germany. The primary rationale for choosing these target countries is that they provide a representative sample of the primary developed countries and consist of 66.2 percent of the countries which Indian acquisitions occur. Mohan (2006) states that *'Indian firms have been in an expansive and acquisitive mood in recent years and a hot destination appears to be the UK.'* There are two primary reasons for this. Firstly, India was a former colony of the UK and the trade links have been long in existence with Indian firms utilising them over the past number of years. The second reason is that the UK acts as an entry point for Indian firms into the European markets. This study also includes target firms in France and Germany in order to capture the announcement returns in Europe, as Europe continues to be the host of large investment from other countries (Bertoni et al., 2009). Canada and the US combined are one of the largest and most developed markets globally and is inevitably the host of a significant amount of Indian outward foreign direct investment. Geographically Australia and Singapore are the closest developed markets to India and therefore the host of investment from Indian companies hence we include them.

Also investigated are source of the determinants of shareholder returns, including multiple acquirers, merger waves and previous bidder toehold, which may have an effect on the announcement returns for acquiring firm shareholders. The methodology used in this study is an event study as it is well documented in financial literature to capture announcement returns. However capturing market reactions in a short time frame ignores what happens post deal or the issues involving the integration of the merging entities. In summary this work is timely as it deploys a relatively large sample 217 of acquisitions by Indian public companies into seven developed markets while at the same time analysing 106 domestic deals. Furthermore we aim to unravel the determinants of the wealth effects which will shed light on the variables which have an effect on Indian M&As both at home and abroad.

Layout of Dissertation

This dissertation consists of six chapters. Listed below is a concise account of each of the chapters to follow:

Chapter Two: This chapter contains the literature review and outlines the theoretical and empirical evidence which currently exists on M&A, and M&A activity in emerging economies.

Chapter Three: This chapter outlines the data and methodology deployed in this research. Included are the research questions and details of the event studies which have been utilised in order to calculate the abnormal returns for acquiring firm shareholders. This chapter also outlines the limitations of the methodology used.

Chapter Four: This chapter portrays the main findings of analysis of the data.

Chapter Five: The researcher's interpretation, discussion and analysis of the data are documented in the findings chapter and compare to existing literature on the topic.

Chapter Six: This chapter is the final chapter of the dissertation. It provides an overview of the complete dissertation and the key conclusions found from conducting this study. Moreover, the limitations of this study are incorporated. Here the author presents areas where further research could be conducted in the future.

Chapter Summary

This chapter has provided a background to the research domain and provides an indication of what is to follow. Overall this chapter underpins the structure of the study.

Chapter Two: LITERATURE REVIEW

LITERATURE REVIEW

Introduction

This chapter will aim to introduce the reader to the theoretical motives and empirical studies surrounding the M&A landscape. The existence of waves in M&A activity will be examined, followed the impact M&As have on emerging economies. This is followed by a detailed analysis into the theoretical framework and motives of cross-border M&A activity. A detailed overview of empirical studies regarding acquiring firm shareholders is then analysed. Finally this chapter concludes with an analysis of the determinants of acquiring shareholder returns.

Recent Merger and Acquisition activity

Academic literature surrounding M&A within an emerging market context is relatively limited considering the unprecedented growth of these markets over the past decade. According to Bertoni et al. (2011) “*Firms from emerging countries, which have traditionally acted as targets rather than acquirers in cross-border M&As, are now progressively more active in taking over firms in developed economies*”. The unparallel surge in growth and performance of the BRIC countries has witnessed increased investor interest across world economies (Chu et al., 2009). Much of the academic literature on M&As in emerging economies focuses largely on firms from developed countries acquiring into the BRIC countries. Hay et al. (2010) stresses the increased volume of Chinese and Indian investments over the past number of years has been significant. Unsurprisingly, literature on M&As in emerging economies is limited, as M&As are a recent phenomenon in these countries. Of those studies which exist focus has been on examining wealth effects and motives for acquiring firms from developed countries (Aybar and Ficici, 2009). The primary aim of this study is to investigate the wealth effects for shareholders of Indian acquiring firms who acquire in India and into developed economies. Empirical evidence from M&As in emerging markets suggest that returns are on average negative or zero to acquiring firm shareholders (Chu et al., 2009).

Merger and Acquisition activity over time

The definition of an M&A transaction varies throughout the literature, but it is widely believed that they are used by companies as a means of corporate expansion through inorganic growth. Ma et al. (2009) define a merger, acquisition or takeover “*As a deal in which a combination of business entities take place or in which an acquirer increases its holdings to more than 50% or to 100% of stock (or assets) from less than 50% of the holdings.*” Shareholder wealth maximisation is poised as the primary rationale for M&A activity in modern finance theory, however other managerial motives such as hubris and agency theories may also help explain M&A transactions in the US and EU (Sudarsanam, 1995). According to Healy et al. (2010), “*M&As have long been a popular form of corporate investment, particularly in countries with Anglo-American forms of capital markets.*”

Waves in the US M&A market

In literature, M&As are classified as occurring in particular waves. As M&As are traditionally a US phenomenon for growth, the most notable waves have occurred in the US takeover market. Sudararsanam (2010) identifies that there are six identifiable waves since 1890, with the first occurring from 1890 to 1905, known as the wave of ‘merging for monopoly’.

The second occurred in the 1920s, following the 1903/1904 market crash and the First World War, with this wave resulting in the creation of several oligopolies. The third wave began in the 1960s and continued through to the early 1970s, with the creation of many conglomerates evident throughout this era. In the 1980s following the second oil crisis in 1979 and the deep recession at the beginning of the 1980s, the US experienced its fourth merger wave which consisted of both acquisitions and divestitures. The emergence of hostile tender offers also occurred throughout the fourth merger wave.

The fifth merger wave evident in US history is in the 1990s where the focus on core competencies remained the primary theme throughout this merger wave. In comparison to previous waves the value of deals had significantly increased, where at the peak of the wave in 1999 the total value of the deals was in excess of \$1.75 billion compared to the previous peak in 1988 of \$343 billion. The 1990s also saw the emergence of new technologies including the internet, cable television and satellite

communication, and also saw the creation of new industries. The sixth wave which evident in US history, preceding the dotcom bubble, began in 2003 and concluded in late 2007. However new players emerged in this wave with hedge funds, private equity acquirers and mutual funds getting involved in driving M&A activity.

Alexandridis et al. (2011) also find evidence for a wave beginning in 2003 and concluding in late 2007 in the US takeover market. The authors believe that this wave differs from other waves with bullish sentiments existing throughout financial markets and acquirers should have been able to benefit more from the deals and create more value. However the latter is evident, where acquirers realise significant losses surrounding the announcement.

M&A waves in emerging economies

Sudarsanam (2010) outlines how the wave beginning in 2003 and concluding in 2007 differs from the previous waves in that the wave has been reinforced by M&As and divestures in major emerging markets, with the majority of the activity taking place in the BRIC countries. This has been primarily influenced by the economic growth, FDI flows and the growth of private equity firms in these countries (Bertoni et al., 2011). Sudarsanam (2010) considers how the growth of new industries has led to a number of cross-border acquisitions in these countries, while the BRIC countries have grown in size, resources and capabilities fuelling their ambitions to become global leaders in the future.

In summary since the 1800s M&As have had a tendency to occur in waves in developed economies. Since the beginning of the new millennium there has been an increase in M&A activity in emerging economies. Alexandridis et al. (2011) maintains that throughout the sixth M&A wave, acquiring firm shareholders have on average experienced negative returns and M&As in this wave have been on average wealth destroying for the acquiring firm. However their study is limited to developed economies with no evidence of returns for firms in emerging economies throughout an M&A wave.

Emerging Economies

Ahammad and Glaister (2008) analyse how companies are increasingly attempting to enter global markets however the traditional means of start-up using foreign direct investment such as joint ventures and greenfield start-ups is becoming significantly less appealing to companies. They conclude that the concept of cross-border M&As where companies can purchase a company abroad which is already established is becoming progressively more appealing for multinational organisations.

As previously outlined M&A activity often occurs in waves, which is similar too for emerging economies. According to Sudarsanam (2010), the BRIC countries have experienced strong economic growth rates throughout the past decade, which coupled with strong inward FDI flows, has enabled these economies to establish a vibrant market for M&A activity throughout the past decade. BRIC countries have grown in size, resources and capabilities, enabling them to become key players in many industries, and laid the foundations for these countries to thrive despite the global financial crisis. The global financial crisis which began in 2007 had an impact on every economy globally, however due to the strong economic growth rates and inward flows of FDI, these economies were not impacted to the same extent as those in the developed world. While the economic slowdown is still a painful reality in North American and Europe, the emerging markets around the world are making headlines with their fast economic recovery, strong consumer demand and large-scale investments.

Kumar (2009) observes how companies in emerging economies are deploying M&As as their main strategy for globalisation, which is evident from the recent surge in M&A activity by emerging economies since the beginning of the financial crisis in 2007. Suitors from emerging economies are finding the valuations of companies in developed countries more favourable since the recent stock market crashes in the US and Europe.

Bertoni et al. (2011) emphasises that M&As are becoming a more popular entry mode utilised by Indian firms to invest into developed economies. Firms in emerging economies which would have traditionally been the targets are now becoming acquirers in domestic and cross-border deals. Emerging economy multinationals are progressively taking over firms in developed economies, this phenomenon is also

confirmed by the outward FDI flows from India which has been highlighted in the recent *World Investment Report*.

Theoretical Framework- Motives and Expectations

Traditional theoretical framework for M&As suggests that there were three main motives for M&As, these are synergy, hubris and agency motives. Table 2.4.1 outline the overall performance of companies following an M&A. Chu et al. (2009) argue how these motives may have little validity in emerging economies for one reason in particular. Developed economies such as the US have a well-developed legal system to protect shareholders, in comparison to emerging economies who lack the same adequate legal systems.

Table 2.4.1: Motives for M&As

Theory	Total Gains	Gains to Target	Gains to Acquirer
Synergy	+	+	+
Agency	-	+	-
Hubris	0	+	-

Source: Berkovitch & Narayanan (1993)

Synergy

Synergy is said where the combined company is expected to have greater value than the individual parts. Value is gained from a merger when the gain is greater than the transaction costs. Synergy benefits the combined company and offers a ‘win-win’ situation for both the target and acquiring company. Huyghabaert and Luypaert (2011) investigate the presence of synergy in 413 European mergers and acquisitions and find that synergy is present with abnormal sales growth rates of 22.25% for the period 1997 to 2005.

Agency Theory

Agency theory suggests that managers may not always act in the best interest of the owners hence shareholder wealth effects are negative for acquiring firm shareholders. Management may consider their own interests ahead of those of shareholders (Sudarsanam, 2003). Agency may also occur if management own a small share of the overall share capital. In this case the profit maximisation of shareholders may be

overlooked as management pursue their own aims for lower work effort while being able to avail of larger benefits, along with the personal reputation of the manager. (Cooke, 1988)

Hubris

Hubris motive for merger and acquisition activity state that the management of the acquiring company end up paying too much for the company because of overconfidence about their ability to assess and extract takeover gains. (Gondhalekar & Bhagwat, 2003) This also results in acquiring firm shareholder wealth destruction. Another term used to describe this is animal spirits which John Maynard Keynes wrote about in his book 'The General theory of money, interest and employment' in 1936.

Theoretical Framework and Emerging Economies

Presently there is limited evidence on acquiring firm shareholder wealth effects in India. According to Ramakrishnan (2010) M&A activity in India has increased since the early 1990s following economic and political liberalisation. Existing literature does not analyse the theoretical framework underpinning M&A activity in India. Thus exploring the impact which Indian M&As have on all proliferations of the financial and economic regimes has been relatively unexplored in India.

Chu et al. (2009) has suggested that the traditional motives for M&As are not always the same motives for firms from emerging markets acquiring into developed economies. Although additional motives may allegedly be the reasons for M&As in emerging economies, Berkovitch and Narayanan (1993) framework is still the underlying motive for M&A activity. Kumar (2009) discusses how emerging multinationals are cash rich, as their economies have grown at astronomical rates over the past fifteen years, especially China and India. The profit margins of these firms are nearly double the profit margins of those in the developed world. Kumar (2009) also asserts that companies in emerging economies are finding firms in the developed world more attractive since lower valuations make them affordable, suggesting that hubris or agency could be an issue. Over fifty percent of deals from developing country acquirers utilise internal equity to finance bids. Furthermore Kumar (2009) postulates that these companies are being used to enhance economies of scale.

Motives for Cross-Border M&As

Studies investigating M&As in emerging economies have attempted to develop the primary motives and driving forces surrounding cross-border M&As. Mann and Kohli (2011) and Prather and Min (1998) highlight theories and hypothesis in an attempt to investigate why a firm would engage in cross-border M&A activity. Outlined below is several of the motives of cross-border M&As.

Industrial Organisation Theory

The industrial organisation theory relates to market imperfections and the value creation of cross-border M&As, where firms can take advantage of market imperfections. This theory proposes that international diversification hypothesis is the primary motive for the globalisation of Multinational Corporations (herein MNCs), where the improper integration of boundaries enables investors to maximise returns by diversifying their portfolio globally. Another factor which this theory considers is the exchange-rate hypothesis is the final hypothesis in this theory where imperfections in foreign-exchange markets allow the acquiring firm to take advantage of fluctuations in the markets and acquire companies cheaper. These hypothesis has a synergistic effect and suggests that cross-border M&As should potential yield higher returns for shareholders.

Multinational Network Hypothesis

Prather and Min (1998) assert that international expansion creates embedded options that can be exercised to create a globally maximising network. Under this hypothesis there are two proxies for option value. Firstly, the level of development of the target country should be inversely related to option value. Secondly, initial expansions into a country should enable the firm to learn firsthand about the country and therefore enable them to learn about future opportunities which could exist.

According to Prather and Min (1998) this hypothesis also highlights that acquiring firm shareholders should earn positive returns on the announcement, as managers should only partake in deals which will increase the value of the firm.

Target Population

Kish (1990) suggests that the size of the American economy and the developed economic and financial systems appeal to foreign firms, where globalisation is a key strategy. While the high levels of young educated professionals, act as an additional pull factor for developed economies. The unprecedented economic growth which the world has experienced over the last decade has caused the level of the educated workforce to significantly increase in the UK and the US, which entices companies from emerging economies, who have low levels of an educated workforce to locate in developed countries.

Ahammad and Glaister (2008) discuss how technology is a huge driver surrounding cross-border M&A activity. With transport and communication costs being greatly reduced in the past decade, firms are taking advantage of this by expanding global operations as the span of corporate control of companies significantly increase with these advances.

More recently Kumar (2009) has identified that emerging giants acquiring in developed economies throughout the past decade have also been able to create value in the corporations which they takeover, through rigorous cost cutting techniques. The slow-growing economies of the developed world have allowed emerging giants to easily conduct a number of cost cutting techniques such as reducing head count, identifying the efficient process and synergies which they can use to facilitate the growth of their primary resource. However the slow-growing economies are not a concern for the companies as the emerging giants can switch high-cost processes to their home country and thus reducing costs.

Evidence of Shareholder Wealth Effects of Cross-Border M&A

Mann and Kohli (2011) investigate target shareholder wealth creation in domestic and cross-border acquisitions in India, for a sample of 106 acquisitions made between 1997 and 2008. The sample included 63 domestic acquisitions and 43 cross-border acquisitions. Their results indicate that target shareholder experience on average positive returns in domestic M&As and negative returns for cross-border M&As. The results also indicate that the nationality of the acquirer is the only variable which is statistically insignificant on the announcement effect. Although this study investigates target shareholder returns, the results are important for this study in order to contrast the differences in shareholder wealth effects. In contrast Ramakrishnan (2010) examined target and acquiring shareholder returns in the Indian market and found that target firm shareholders experienced positive returns whereas acquiring firm shareholders did at best breakeven. The contrasting results have paved the way for a more recent study on acquiring firm shareholder returns.

Presently the majority of literature which analyses acquiring firm shareholder returns, focuses on those from developed markets, with the US and UK being the predominant focus of these studies (Chu et al., 2009). More recently there has been a shift to examine shareholder wealth effects in emerging economies (Bertoni et al., 2011). The aim of this study is to investigate Indian acquiring shareholder from both returns of domestic and cross-border deals into developed economies. However given the paucity of literature investigating returns, this study will investigate current literature under two sub-headings namely developed country M&A and emerging economies M&A, in order to produce a thorough insight into all literature and findings.

Developed Countries

Currently there is extensive literature surrounding acquiring shareholder returns for M&As between developed economies (Ramakrishnan, 2010). This evidence examines domestic and cross-border shareholder returns within developed economies. The majority of the literature examining Anglo-Saxon countries and more recently the EU has come under extensive examination. These studies are documented below.

Aw and Chatterjee (2004) conduct an investigation into the performance of 79 large acquisitions by UK acquirers in both domestic UK and cross-border (US and

Continental Europe) targets, between 1991 and 1996. Their results establish that UK firms acquiring large takeover targets experience negative returns while domestic deals result in a two percent share price increase for six months after the announcement date, while cross-border announcements show negative returns of 3.8 percent.

Similarly Moeller and Schlingemann (2005) investigate 4,430 domestic and cross-border acquisitions by US firms, between 1985 and 1995. Their results suggest that on average cross-border acquirers experience significantly lower announcement returns of approximately one percent and the entire entity has significantly lower changes in operating performance. This study also investigates a number of bid-specific characteristics in an attempt to explain this difference in returns. These include global diversification, exchange rate effect and country of target. The targets countries in this sample include the UK, Canada, France and Germany. Their results signify negative returns for cross-border targets for the three day event window, which are statistically at the 5 percent level of significance. The results continue to hold after controlling for all of the factors which are expected to affect acquirer returns.

Gregory and McCorriston (2005) explore the short and long run performance of UK firms following foreign acquisitions. For the sample period 1985 to 1994 they analyse returns of 343 acquisitions being analysed, and find that on average acquiring firm shareholders experience little or no returns on the announcement day irrespective of the target location. However when the results are examined for each individual target region, the results indicate significant negative abnormal returns to firms acquiring in the US. While returns for targets in the EU are not significantly different from zero, the rest of the world exhibit performance which is positive and statistically significant.

More recently Boateng and Uddin (2009) investigate the short-run performance of UK acquiring firms acquiring into North America and Europe, over the period 1994 to 2003 and analyse the impact of deal size, industry diversification, target status and payment method on the announcement returns. A total of 373 acquisitions were examined throughout their study and the findings suggest that UK acquirers do not gain from acquisitions. The results also establish that geographic location, deal size and method of payment have no impact on the abnormal returns experienced by acquiring firms. However the study identifies that for the eleven and three day event window, acquisitions in North America earn positive returns in contrast to

acquisitions into Europe which suffer negative returns for the acquiring firm shareholders.

In summary the empirical evidence suggests that acquiring firm shareholders on average experience negative returns from cross-border M&As in developed countries. The most recent study by Boateng and Uddin (2009) signify that returns for acquiring firms into North America are positive however other studies have found negative returns. In conclusion it is assumed that acquiring firm shareholders experience negative returns surrounding the announcement of an M&A in developed economies.

Emerging Economies

The number of empirical studies investigating the impact for companies in developed economies acquiring into emerging markets has increased over the past decade, due to the unprecedented growth of these economies over the past two decades. One of these includes Graham et al. (2008) who carried out an examination of UK firms acquiring in the emerging markets of Africa, Asia, Europe and South America. For the period 1992 to 2003 the sample consisted of 168 deals and find that firms with unique have a tendency to acquire in emerging economies.

Ramakrishnan (2010) examines the wealth effects following the announcement of an acquisition in India using 34 matched pairs of acquiring and target firms for the period 1996 to 2002. Their results suggest that the target firm shareholders experience abnormal returns of 11.6 per cent for a 21 day event window, in contrast to acquiring firm shareholders who at best breakeven.

Chu et al. (2009) examine the period 2000 to 2005 and find that for a sample of 1,477 deals from ten Asian emerging markets, returns for acquiring firm are positive. The ten markets which were examined in this study were China, India, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand. They also find that there are significant build up in returns on the day prior to the announcement day, suggesting that information regarding the merger has been leaked into the market. The results also indicate that for a two day event window, positive returns were experienced in the Indian markets.

Aybar and Ficici (2009) investigate 433 cross-border M&A announcements by 58 emerging market multinationals for the period 1991-2004. Their results establish that acquiring firm shareholders experience a loss of over one percent on the announcement day, which are statistically significant at the 1 per cent level.

Similarly Ahammad and Glaister (2008) conducted an analysis of cross-border M&As by UK companies acquiring into international markets. Their sample includes 7,026 deals by UK for the period 1996 to 2005. UK firms are found to be the most acquired compared to any other country. They also find that there is a significant increase in the number of deals from the UK into the Asia-Pacific region especially in the financial services sector.

In summary the empirical evidence from the existing literature suggests that returns to acquiring firm shareholders are on average negative around the announcement day, regardless of the target region. Although traditional theoretical framework and the motives for cross-border M&As in emerging economies would suggest that acquiring firm shareholders should experience on average positive returns around the announcement day.

Determinants of Acquiring Firm Shareholder Returns

There are a number of factors which are deemed to influence shareholder returns following the announcement of an M&A. This study has identified a number of key variables to test if these play a role in explaining shareholder returns. Furthermore the differences in returns between cross-border M&As and domestic M&As may be an important factor. This study will test for the impact of a toehold by the acquisition, multiple acquirers, geographic location of target and the presence of a merger wave on both cross-border and domestic deals in this sample. Although the majority of the bid determinants outlined below contain evidence of M&As in developed countries, the results are important for this study.

Bidder Toehold

A bidder toehold is where the acquiring firm already has a stake in the target company. This is most commonly done through the purchase of shares on the stock market. Betton and Eckbo (2000) discuss how *“toeholds reduce the number of target shares that must be purchased at a costly premium, and it provides a capital gain should a rival bidder win the contest and purchase the toehold.”* Substantial theoretical evidence exists in favour of the importance of a previous toehold in the formulation of bidding strategies. Although limited evidence exists regarding acquiring firm shareholders returns, it has been identified that target firm returns decrease when a previous toehold is present. Theoretical evidence suggests that bidders with a previous should on average experience positive returns as rival bidding firms are discouraged for bidding for the company. The toehold in the company also provides acquiring firms learn about the company and conducted an analysis into whether or not the deal will potentially have a synergistic effect. The impact this could have on acquiring firm shareholders has not been examined in India.

Betton and Eckbo (2000) examine 2,335 takeover bids and 1,353 tender offers in the US. Their findings show that out of 1,353 initial bidders only 53 percent had toeholds, with the toehold providing significant target firm shareholder returns. Their results also indicate that the greater the toehold which exists, the lower the probability that a rival bidder would appear, and the lower the probability that there would be resistance from target management. Le and Schultz (2007) investigate bidder toehold in the case

of 122 takeover announcements made by Australian public companies between 1997 and 2004 find those with a toehold earn significantly higher shareholder returns compared to those without a toehold.

Multiple Acquirer

Multiple acquirers are those that have acquired a number of companies in the sample period, in contrast to acquirers who only engaged in one deal throughout the sample period. Literature suggests that multiple acquirers may experience positive returns as a learning effect comes into play, where acquirers should learn from previous companies which they have acquired. Another reason is that the acquiring firm should be easily able to integrate with the target firm as they have engaged in many deals.

According to Camerlynck et al. (2006) acquirers of several companies in a short-period of time are an essential element of the takeover market, as they are utilising M&As as a strategy for external growth in contrast to single acquirers where such deals are an occasional event. Betton and Eckbo (2000) also examine the differences between multiple and single acquirers for 2,335 takeover bids and 1,353 tender offers and find that multiple acquirer returns have significantly lower returns than single acquirers. Camerlynck et al. (2006) conducted a study which examined 143 acquired companies and 123 acquiring companies in Belgium for the period 1992 to 1994. Their results suggest that multiple acquirers just breakeven in contrast to their single counterparts who earn significantly positive returns around the announcement day. Although this study focuses on companies in a developed market, the results are important to note as it highlights the differences in returns for multiple acquirers around the announcement day.

Waves

Carpenter et al. (2009) documents how many scholars have proposed that temporal and episodic effects influence market responses to deal announcements, with extensive literature examining the consequences for acquirers across different acquisition waves. Alexandridis et al. (2011) examine how M&As have changed throughout the sixth merger wave which is deemed to have occurred between 2003 and ended approximately in late-2007. The findings find that acquirers on average paid lower premiums in this wave than in any of the other merger waves. Acquiring

firm shareholder were shown to experience on average negative abnormal returns, similar to other waves.

This study highlights the importance of controlling for merger waves, as deals announced during an M&A wave have a negative effect for acquiring firm shareholders. Alexandridis et al. (2011) explain that on average M&As throughout the sixth merger wave did not create value, while acquiring shareholder returns are higher during the periods preceding the wave. Given the difference that are shown to emerge in the wealth effects for acquiring firms in differences in waves it is important to control for this in our study as it spans into emerging economies.

Geographic Location of Target

Doukas and Travlos (1988) assert that firm's acquisition announcement in emerging markets may be viewed by investors as a signal of a transfer of firm's resources internationally in order to exploit potential resources, capital markets through international expansion and market imperfections. A foreign takeover could potentially be an attempt to capitalise production economies of scale which may occur in both the marketing and manufacturing spheres. Doukas and Travlos (1988) analysed 301 foreign-acquisition announcements by US firms for the period 1975 to 1983 and report significant positive returns for the acquirers following the announcement of an international deal. While this study is somewhat dated and investigates only US firms acquiring overseas, the results are important to this study as they indicate that cross-border M&As result in positive returns for the acquiring company shareholders.

Aybar and Ficici (2009) argue that the level of economic development in the target region is an important determinant of the benefits which can be gained from a strategic cross-border expansion for acquirers. Their study consisted of 171 transactions where the target locations were all in developed countries (as defined by the World Bank). On average they find indicate that there is a higher percentage of positive reactions where the target is located in a developed country and the cumulative abnormal returns are higher on average for all event windows. Aybar and Ficici (2009) investigate 433 M&A announcements for 58 emerging-market multinationals, for the sample period 1991 to 2004 and find on average that cross-border expansions of these multinationals do not create value for the company. Also investigated in this study is the geographic and cultural proximity of the acquirer's

home country and the level of economic development of the host country, developed or emerging. The findings indicate that the higher the cultural distance the lower the value-destructive impact of the announcement.

Chi et al. (2011) investigate 1,148 deals by acquiring firms in the two Chinese stock exchanges for the period 1998 to 2003, along with several other bid-specific characteristics. They investigate the geographical location of the target company and find that cross-border M&As perform better than domestic M&As. This variable is important to analyse as the location of the target company could have an impact on the returns experienced by acquiring firm shareholders, with this study aiming to highlight the impact of the UK and US on shareholder returns.

In summary the determinants of a specific deal can increase and decrease acquiring shareholder returns. Evidence on the bid toehold suggests that acquiring shareholders should experience positive returns from having a prior stake in the target firm prior to the acquisition. Multiple acquirers on average are found to incur significantly lower returns than single acquiring firms. The presence of a merger wave is deemed to result in impacting acquiring shareholders returns, while firms which acquire into developed economies shareholders experience positive returns.

However current literature indicates mixed results for the impact which these determinants have on acquiring firm shareholders. There is limited evidence on the effect of Indian M&A, with the majority of the research on emerging economies focusing on Chinese M&A activity. The majority of the studies analysed, analyse returns in developed economies, therefore this paper attempts to investigate if the returns differs when the acquiring company is Indian.

Conclusion

This chapter reviewed the relevant literature regarding domestic and cross-border M&A activity. The theoretical motives and cross-border motives were also examined in detail. Empirical evidence was documented, consisting of evidence of acquirer returns in the US, UK and emerging markets. Finally the key determinants of acquiring firm shareholders which can influence returns, were then outlined.

Chapter Three: DATA AND METHODOLOGY

DATA AND METHODOLOGY

Chapter Overview

This chapter will outline the research methodology utilised in this study. The chapter will begin with the type of study deployed and the details of the research objectives will then be discussed. This is followed with an overview of the data sample and the data sample, the data collection and the research methodology employed to answer the research questions. Finally, the last section of this chapter outlines the limitations of the methodology employed.

Quantitative versus Qualitative research

This study deploys quantitative techniques as opposed to qualitative techniques in order to address the research problem. Cooper and Schindler (1998) define qualitative techniques as the meaning, definition or analogy while Brewer (1986) asserts that quantitative techniques as using statistical tests to analyse financial data of a large group to fully understand the impact of an event. As with other studies of this nature this study will utilise a quantitative method in order to analyse the wealth effects for acquiring firm shareholders.

Research Objectives

The aim of this research is to investigate the short-term wealth effects for shareholders of Indian acquiring firms acquiring in the home market and in overseas market. While the primary research will be to investigate short-term wealth effects for acquiring firm shareholders, the research also aims to fulfil the following objectives:

1. What are the announcement effects for Indian public companies acquiring in India and in developed countries?
2. Is there a difference in shareholder returns from domestic acquisitions as oppose to international announcements?
3. Is there a difference in shareholder wealth effects for multiple acquirers as oppose to single acquirers?

4. Is there a difference in shareholder wealth effects for those with a toehold in the target as oppose to those without?
5. Is there a difference in returns to acquiring shareholders from deals announced during the merger wave as oppose to those not in the wave?
6. Is there a difference in shareholders wealth effects domestic acquiring into the US or UK as oppose to all other target markets?

Research Design

The sample consists of deals by Indian acquiring firms, who purchase both in India, as well as in the US, UK, Singapore, Australia, Canada, Germany and France. These target countries account for 66.2 percent of the total cross-border deals announced for the sample period analysed in this study. The sample enables for a comprehensive analysis of the impact of M&A activity to be conducted, in an attempt to provide a thorough analysis of global flows of M&As from India into developed countries as well as capturing domestic transactions.

The sample spans from 2000 to 2010, as this encompasses complete analysis of the flows of M&As from India into developed countries. The largest cross-border deal is Tata Motors purchase of Jaguar Motors in the UK, for \$2,300 million in 2008. Only completed deals were included, and the acquiring companies are all publically listed on the Indian stock exchanges, while the target firms are a mixture of public, private and government owned companies. The sample only includes deals of which the acquiring company acquired over 50 percent of the shares of the target company, and ultimately became the majority stakeholder in the company.

The initial sample included a total of 241 deals which comprised of 120 domestic deals and 121 cross-border deals. Due to restrictions with the availability of share price data for the companies the final sample was reduced to a total of 217 deals of which 106 were domestic deals and 111 cross-border deals. Although the sample has been reduced the sample should provide an indication into the expected announcement effects for acquiring firm shareholders.

The sample was limited to deals which were greater than \$5 million in order to get an accurate assessment of the announcement effect. The financial database *Thomson One Banker* was used to capture much of the data. The data which was exported was analysed on the basis of the nationality of both the target and acquiring company, the

announcement day of the M&A, the value of the transaction, the percentage of shares acquired, the primary SIC (from herein Standard Industrial Classification) of both the acquiring firm and the target firm, and the deal status.

The data was exported to *SPSS* in order to analyse the returns and the statistical significance of the results. *SPSS* enables the author to analyse large quantities of data and compute results in regards to the dataset. *SPSS* enabled the author to analyse the data using a variety of statistical measures from descriptive to differences in means.

The share price of each of the acquiring firms has been downloaded for 250 days prior to the announcement, and for 100 days after the announcement day. In order to investigate shareholders returns. The information was supplemented by information surrounding the deal which was gathered from the *Financial Times* and the *International Monetary Fund*.

The distribution of the target countries has been outlined in table 3.1.

Figure 3.2.1: Distribution of Target Countries

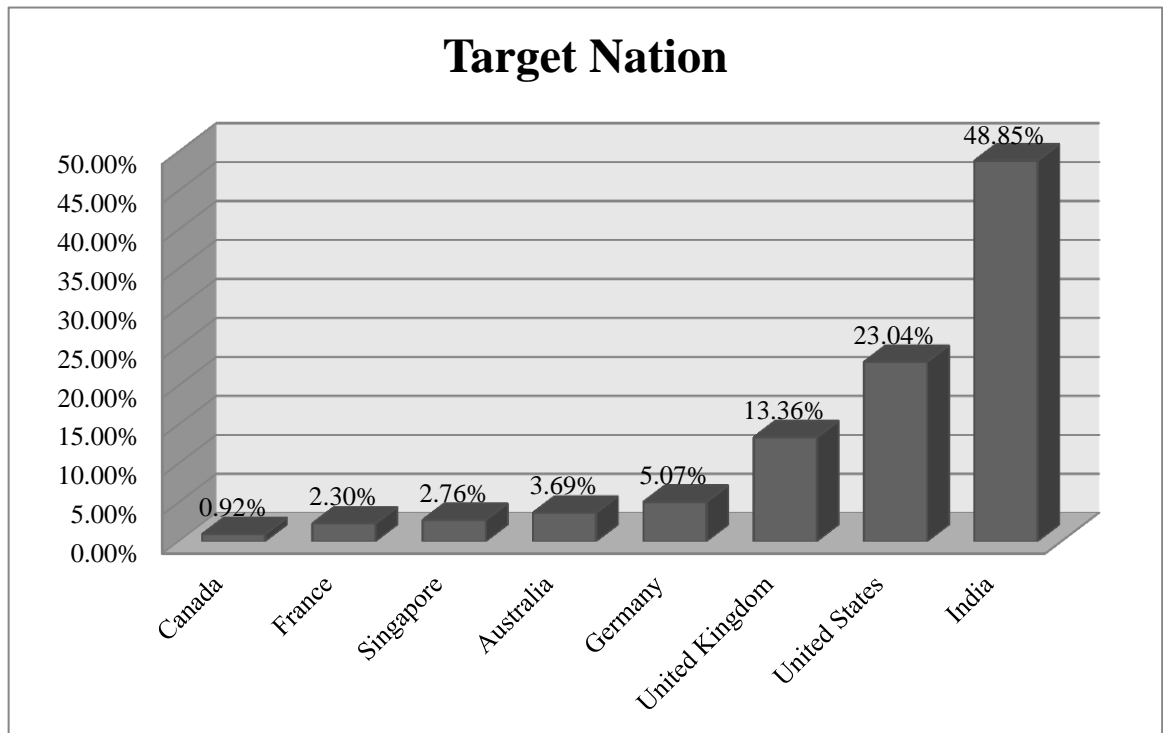
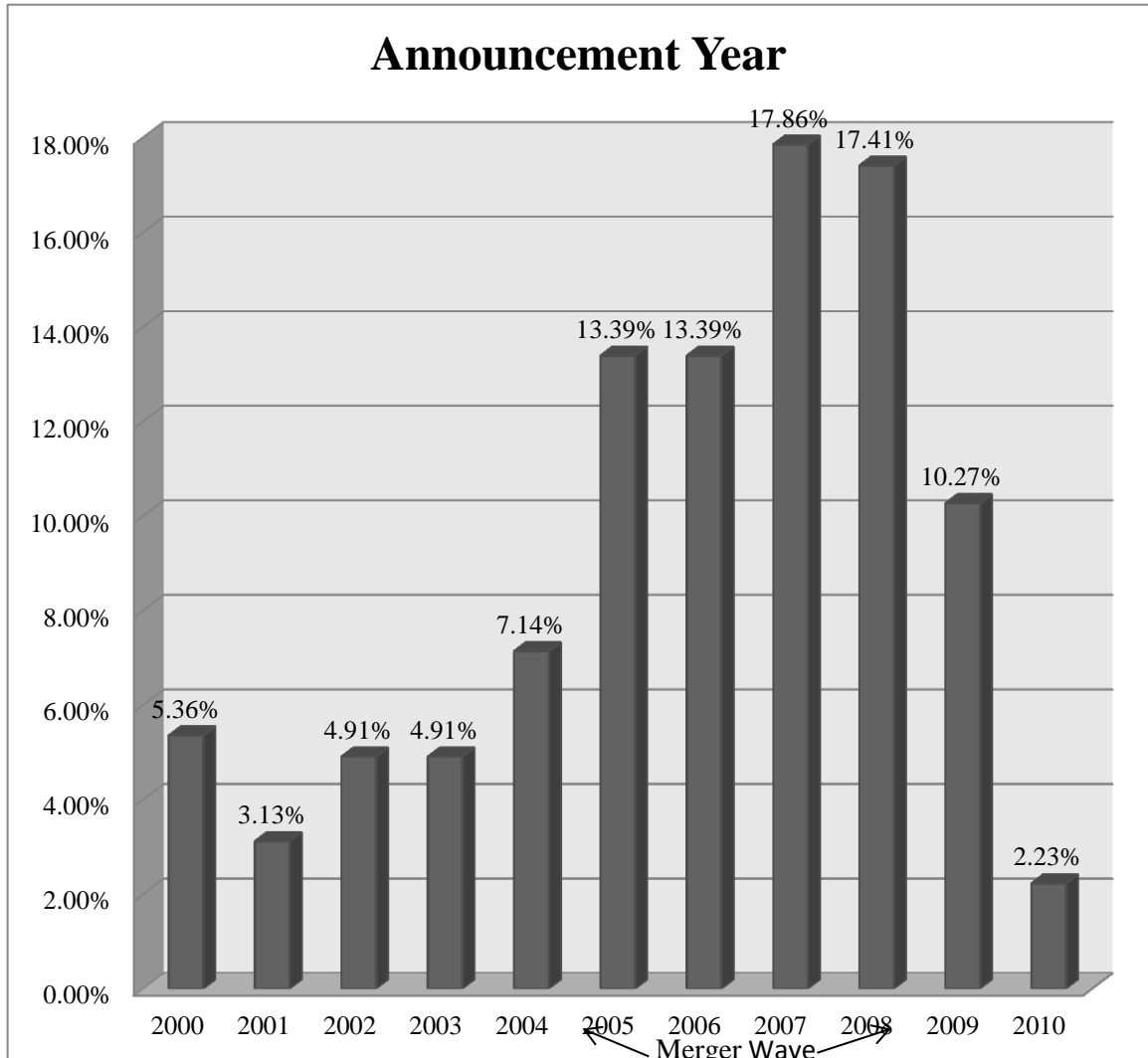


Table 3.2.1 demonstrates that the UK and US account for almost 37 percent of all deals and 72 percent of deals into developed countries. After the UK, Germany is the most prominent target country in Europe with over five percent of target firms.

The sample contains countries from geographically dispersed areas which enables the author explore Indian returns from across the globe. Chu et al. (2009) observes how M&As are a US phenomenon and this is evident from our sample. Hay et al. (2010) summarise how the EU is host for the majority of foreign direct investment from India and China, where in this sample the EU consists for over 45 percent of the total cross-border sample. Yet while Singapore and Australia are more closely located developed countries to India, they account for just over 14 percent of the cross border sample. Unsurprisingly just only 26 percent of targets were located in the UK, which can be partially explained by the relations between India and the UK exist for centuries, as there is a historical connection between the two countries.

Figure 3.2.2 below outlines the percentage of deals announced each year. The merger wave which has been outlined by Alexandridis et al. (2011) has been identified in the sample and it is evident that the merger wave shown below differs, as it begins in 2005 and concludes in 2008.

Figure 3.2.2: Sample of M&As per year



As documented earlier M&As have a tendency to occur in waves with the most recent wave identified by Alexandridis et al. (2011) from 2004 to 2007. Figure 3.2.2 suggests that a wave began in 2005, somewhat later than Alexandridis et al. (2011) study and concluded in 2008. There has been a noticeable reduction in 2009 and 2010 which would be consistent with the rest of the world. This suggests the market turmoil which has been evident throughout the world in 2009 and 2010.

Efficient Market Hypothesis

The Efficient Market Hypothesis (EMH) was first suggested by Bachelier (1900); yet it was Fama (1965), who first coined the term 'Efficient Market'. EMH suggests that excess market returns cannot be made, as all publicly available information is reflected in the price of a stock. According to EMH, stocks always trade at their fundamental values and it is impossible to earn abnormal returns against the market. In 1973, Burton Malkiel wrote the book 'A Random Walk down Wall Street' which suggested that one could not consistently outperform the market and that traders could not be consistent in their returns.

Fama (1965) was the first to recognise three different forms of EMH these include, strong form, semi-strong form and the weak form. According to Fama (1965), strong form of EMH suggests that no information public or private is of use because the information is fully reflected in the current price a stock. Fama (1965) explains that the semi-strong form incorporates a wider range of information, and that the share price reflects all publicly available information. It implies that share prices adjust to publicly available new information very rapidly and in an unbiased fashion, such that no excess returns can be earned by trading on that information. The weak form of EMH suggests that future prices cannot be predicted using past prices. The use of technical analysis and fundamental analysis may allow investors the ability to earn excess returns, however returns will be marginal. This implies that future price movements are determined entirely by information not contained in the price series.

While there is a number of articles and a number of investors and researchers who support EMH, there has been a huge amount of criticism towards the theory of late. The most analyzed rejections of EMH is due to the persistence of a number of market anomalies. Anomalies offer investors the opportunity to utilize trends to earn abnormal profits consistently above the market levels of return.

The announcement effect assumes EMH in semi-strong. This implies that the current stock market price encompasses all publicly available information and that above abnormal returns cannot be made. The announcement effect captures the share price rise on the announcement day.

The 'abnormal-gains' hypothesis according to Cooke (1988) has been the traditional hypothesis of merger behaviour and is based on the neoclassical profit maximisation

theory of the firm, in which firms will continue takeover activity as long as shareholders' wealth is increased. Chu et al. (2009), states that literature on short-term wealth effects of mergers and acquisition emphasise the announcement effect as the main indicator of value creation or destruction, for both target and acquiring firms. Hence EMH has been the foundation of event studies. Event Studies aim to capture abnormal returns which shareholders may experience for various event windows around the announcement day. Event studies assume EMH in semi-strong form, where the reaction of the announcement is reflected in the share price of the company.

Event Studies

Corrado (2010) concludes that over the past four decades, event studies have made an enormous contribution to capital market research. Event studies are used to calculate the share price reaction around the announcement of an event for example an M&A, or a new product launch. These studies attempt to average out noise in the market and it is believed the results should be similar regardless of the different methodology used to calculate the abnormal returns. Fama et al. (1969) introduced the event study methodology and has since become the standard method for measuring the prices changes of a security in response to an event or announcement.

The event windows are important and several event windows should be examined. Boateng and Uddin (2009) have stated that the most crucial research design issue is the length of the event window used in an event study and in deciding the length of a window to use, the researcher must choose a window which is short enough to increase the power of the test and at the same time long enough to capture the full effect of the event. In accordance with this argument the researcher has chosen event windows which coincide with several studies in this area.

Boateng and Uddin (2009) in their study of UK firms acquiring overseas utilise two event windows (0, 1) and (-10, 10). Chu et al. (2009) in their international study observe three event windows (0, 1), (-1, 1) and (-2, 2), which are also the event windows used by Chi et al. (2011). Our study will utilise five event windows in order to have a comprehensive measure of the announcement effect on the share price, which are (-50, 0), (-10, 0), (-2, 0), (-10, 10) and (-2, 2) to calculate mean adjusted returns and the market adjusted model. The various event windows attempt to analyse

the returns for a long window of (-50, 0) and for shorter windows in order to fully outline the full announcement effect which has occurred.

In order to calculate daily price returns, the following formula was used, and applied to both the returns of the stock and the index which the stock is listed on.

$$\text{Daily Returns} = \frac{\text{Yesterday} - \text{Today}}{\text{Yesterday}}$$

According to Sudarsansam (2010), the abnormal return is the difference between the actual return of the security and the expected return on the security. The estimation period in this study began 250 days prior to the announcement of the M&A and ended on the 51st day before the announcement of the M&A.

This study utilised two event study methodologies, mean adjusted returns and the market adjusted model. Similar to Boateng and Uddin (2009) the market adjusted model was calculated using daily data, which then allowed the cumulative abnormal returns to be calculated. Aw and Chatterjee (2004) comment on the market adjusted model as opposed to the market model, where α and β are calculated using an ordinary least squares regression to determine the coefficients. However the market adjusted model assumes that α is set at 0 and β is set at 1. The market adjusted model allows the researcher to test the robustness of the findings in comparison to other findings. The market-adjusted model was calculated using the formula:

$$E(R_{it}) = E(R_{Mt})$$

This study will also incorporate the mean adjusted returns and the cumulative mean-adjusted returns will then be calculated. The formula is as follows:

$$\text{Actual Returns} - E(R_i) = K_i$$

Where:

$E(R_i)$ = is the expected return, calculated through the estimation period

K_i = the abnormal returns on the specified day

Cumulative abnormal returns were computed on a daily basis using the following formula:

$$CAR_{iT} = \sum_{t=1}^T (AR_{it})$$

This formula facilitated the cumulative average abnormal returns to be calculated for the specific event windows.

According to Sudarsanam (2010), *“a security’s price performance can be considered abnormal only with reference to some benchmark, and therefore it is necessary to specify a return-generating model before abnormal returns can be measured.”* This study has utilised the market-adjusted model in order to calculate abnormal returns against the index which the stock is listed on.

The market model was not analysed, although it accounts for the alpha and beta of the market and the stock. This is a primary limitation to this study as the two methods used assume alpha is 0 and beta is 1.

Limitations

This study utilised a quantitative approach in order to analyse the research questions and is deemed the most suitable in finance literature. However this has led to a number of limitations of this study. The use of event studies has resulted in only the share price being analysed, therefore only the short term wealth effects are analysed and not the real wealth effects. Event Studies also assume that the market is efficient and that there is no leakage of information.

Furthermore this study was limited to public acquiring firms and private acquiring firms were excluded from the study. Of the total 1,439 deals which were announced during the time frame, the final sample consisted of 217 deals, which could be deemed to be a limited sample. This was because not all the announced deals were completed and there was a significant lack of data available despite significant efforts to capturing it. This is not surprising, due to the recent nature of M&As in emerging markets.

The sample did not control for the status of the target firm and the sample included targets which were both public and private. This could potentially be an area for further research into the announcement effect of public and private targets.

Another limitation encountered in the study was the small number of variables controlled for in order to analyse the returns. The study limited to only controlling for four potential determinants of acquiring firm shareholder returns. Also there was no analysis of prior financial performance of the acquirer or the target firm.

Conclusions

This chapter has outlined the research methodology employed. The research questions to be examined were also presented to the reader for this study. The methods of data collection were outlined along with a brief analysis of the sample collected. This study will deploy a quantitative analysis approach through an event study methodology. Also outlined in this chapter were a number of limitations which were encountered of the dataset.

FINDINGS

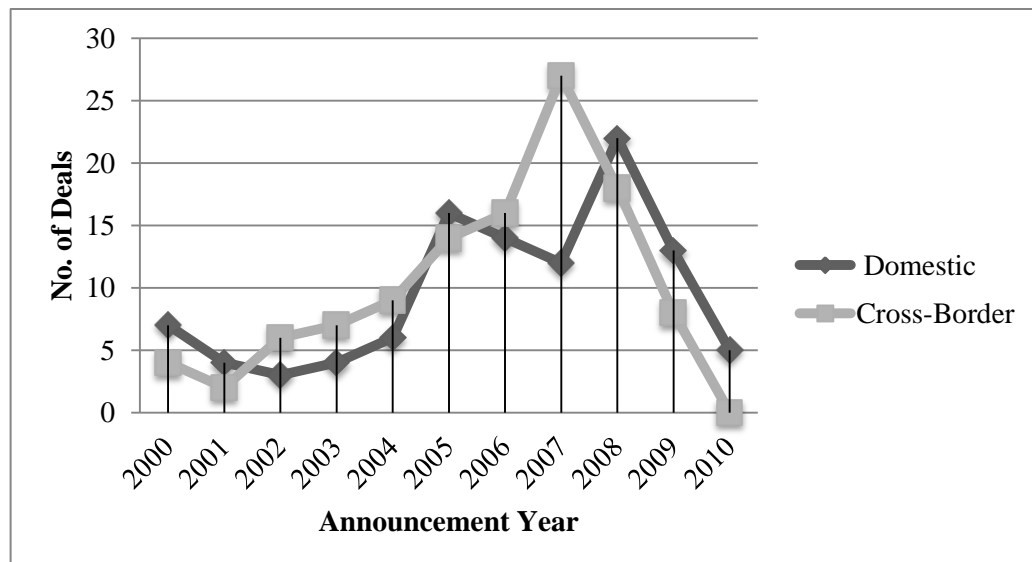
Introduction

The purpose of this chapter is to present the findings from the data used for the research undertaken in this study. This section will outline acquiring firm shareholder wealth effects upon the announcement of an M&A by an Indian acquiring firm for the period 2000 to 2010. The results here within, are generated through data collection from *Thomson One Banker* and are the outcome of the methodological criteria discussed in chapter three.

Annual Deal Volumes

Outlined in figure 4.1 is the volume cross-border and domestic deals announced per year. Figure 4.1 below observes that a peak in cross-border deals occurred in 2007. The increase in cross-border deals began in 2005 reached a peak in 2007 and began to decline again in 2010. Similarly the emergence of domestic M&As began in 2005, then declined, however the peak in domestic M&As occurred in 2008 and has since been on the decline.

Figure 4.1: Volume of Deals announced per year for cross-border and domestic M&As



Source: Thomson One Banker

Kumar (2009) confers that since the stock market crashes in the US and Europe, emerging market multinationals are finding the valuation of companies much more appealing. This is evident from figure 4.1 as the peak in cross-border deals occurred in 2007, where the financial crisis began. It is also evident that a wave in M&As has occurred from 2005 and continued until 2008 when developed countries began to recover.

Table 4.1: Number of Domestic and Cross-Border Bids announced each year

		Domestic (n=106)	Cross-Border (n=111)
Announcement Year	2000	63.6%	36.4%
	2001	66.7%	33.3%
	2002	33.3%	66.7%
	2003	36.4%	63.6%
	2004	40.0%	60.0%
	2005	53.3%	46.7%
	2006	46.7%	53.3%
	2007	30.8%	69.2%
	2008	55.0%	45.0%
	2009	61.9%	38.1%
	2010	100.0%	0.0%

Alexandridis et al. (2011) concludes that a merger wave began in 2003 and finished in late 2007. From Figure 4.1 and table 4.1, it is evident that an M&A wave occurred in India, beginning in 2005 and concluding in 2008. Table 4.1 indicates that even though an M&A wave occurred, there were more domestic deals than cross-border deals in 2008, however in 2007 there were more cross-border deals than domestic. This increase in cross-border deals in 2007 could be due to the financial crisis and companies being valued at their true intrinsic value.

Descriptives

Table 4.2 outlines the descriptives of the sample, and the distribution of the deal determinants between cross-border and domestic deals.

Table 4.2: Overview of Descriptives

	Domestic (n=106)	Cross-Border (n=111)
Acquirer		
<i>Multiple Acquirer</i>	39.42%	60.58%
<i>Single Acquirer</i>	57.52%	42.48%
Bidder Toehold		
<i>Previous Toehold</i>	90.00%	10.00%
<i>No Previous Toehold</i>	46.86%	53.14%
Merger Wave		
<i>Yes</i>	41.94%	58.06%
<i>No</i>	58.06%	41.94%
Mean Deal Value (\$111.6 mill)		
<i>Greater than Mean</i>	66.67%	33.33%
<i>Less than Mean</i>	44.94%	55.06%

There are number of interesting outcomes which are evident in Table 4.2. Firstly it is evident that nearly 60 percent of domestic acquirers are single acquirers whereas, over 60 percent of cross-border acquirers are multiple acquirers. Out of the 217 deals a bidder toehold is present in only 10 of the deals, with 9 of them being domestic deals. Interestingly there was an even split between deals which occurred in the merger wave and those which occurred in other years, suggesting that when the sample as a whole is taken into account a merger wave is not evident. Nevertheless it is interesting to consider that over 58 percent of cross-border deals occurred during the merger wave, whereas 58 percent of domestic deals occurred outside the merger wave. Another key finding is that over 66 percent of domestic deals were greater than the mean, whereas 55 percent of cross-border deals were less than the mean.

Mean Deal Values

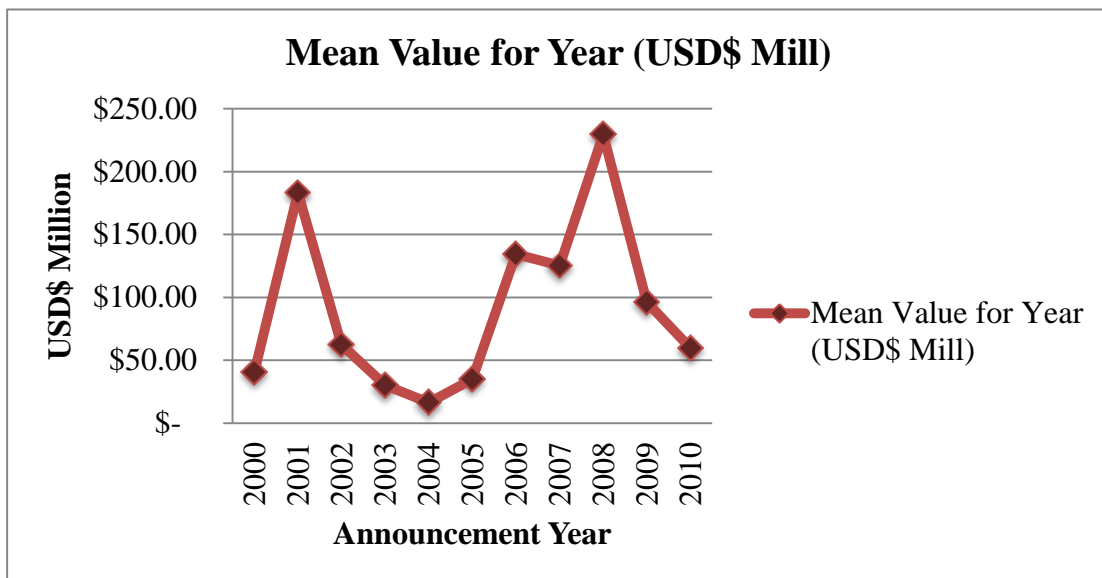
Table 4.2 outlines the number of deals per year which were less or greater than the mean value. For every year the majority of the deals are less than the mean signifying that the mean is driven by the few large deals which the sample is comprised of. The mean is largest in 2008, when it reaches over \$229.62 million, while the year when it is the least is 2004. The mean value of the total sample is \$111.6 million therefore from 2006 to 2008 the mean value is continuously greater than the mean of the entire sample.

Table 4.3: Number of Deals Each Year Greater or Lower than the Mean Deal Value per year

		Mean Value for Year (USD\$ Mill)	Less Than Mean (%)	Greater Than Mean (%)
Announcement Year	2000	\$40.67	70%	30%
	2001	\$183.19	83%	17%
	2002	\$62.29	78%	22%
	2003	\$30.13	55%	45%
	2004	\$16.44	80%	20%
	2005	\$34.88	77%	23%
	2006	\$134.32	73%	27%
	2007	\$125.12	82%	18%
	2008	\$229.62	80%	20%
	2009	\$96.09	76%	24%
	2010	\$59.59	80%	20%

Figure 4.2 identifies that the peak mean occurred in 2008, while a dip in the mean value is evident from 2002 through to 2005. Interestingly there has been an increase in the mean values from 2006 to 2008, and then began to fall again in 2009. It has already been identified that there was an increase in the volume of deals beginning in 2006, prior to the beginning of the financial crisis and concluding in late 2008. Figure 4.2 shows that companies may have been paying more for companies throughout this period and signifying an increase from the purchase of small to medium enterprises to larger organisations.

Figure 4.2: Graph of Mean Deal Values.



Announcement Effect

Research Question 1: What are the announcement effects for Indian public companies acquiring in India and in developed countries?

Outlined in table 4.4 is the announcement effect for all Indian acquiring firm shareholders. The cumulative abnormal returns for both cross-border and domestic are encompassed.

Table 4.4: Cumulative average abnormal returns (CAAR) for market-adjusted model for each window, with statistical significance

Market Adjusted Model Event Window	CAAR	Maximum	Minimum	P-Value
CAR (-10, 10)	2.49%	54%	-35%	0.007***
CAR (-2, 2)	2.28%	32%	-20%	0***
CAR (0, 0)	1.45%	26%	-10%	0***

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

On average Indian acquiring firm shareholders are deemed to experience positive returns upon the announcement of an M&A which are all statistically significant at the one per cent level. The highest returns experienced were unsurprisingly under the 21 day event window (-10, 10), where acquiring firm shareholders are expected to gain 2.49 percent on average. For the shorter event window of five days the announcement returns are 2.28 percent for acquiring firm shareholders on average. For the announcement day itself, acquiring shareholders gains are 1.45 percent on average. The data indicates that on average, acquiring firm shareholders gain using the market adjusted model. Returns are positive on average, where much of the gains are captured in the event window (-2, 2), suggesting semi-strong market efficiency.

Table 4.5: CAAR for Mean-Adjusted Returns for each window, with statistical significance

Mean Adjusted Model Event Window	CAAR	Maximum	Minimum	P-Value
CAR (-50, 0)	1.02%	133%	-108%	0.655
CAR (-10, 10)	0.49%	72%	-64%	0.693
CAR (-10, 0)	1.71%	67%	-57%	0.079*
CAR (-2, 2)	1.72%	37%	-20%	0.006***
CAR (-2, 0)	1.69%	30%	-22%	0.002***

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

The results found using mean adjusted returns suggest lower returns than those experienced using the market adjusted model. However this model encompasses the returns of the market, suggesting that on average the market earns returns similar to that experienced by the companies. The model has only three of the event windows are statistically significant. The windows of (-50, 0) and (-10, 10) were statistically insignificant and the returns experienced were only marginally different from zero. Returns for the narrower event windows are greater with the event window (-10, 0) indicating acquiring firm shareholders would experience returns of 1.71 percent which is statistically significant at the 10 percent confidence interval. Returns for those 5 day and 3 day windows were similar with on average returns of 1.7 percent which is statically significant at the 1 percent confidence interval.

Both event methodologies suggest that acquiring firm shareholders experience greater returns for tighter event windows and as the window widens the returns vary. Although two methods were utilised in order to initially analyse acquiring shareholder returns, the remaining findings will report results using the market adjusted model, with a few reporting on mean-adjusted returns. This is due to the market adjusted model being more recognised and more reported on throughout finance literature.

A number of outliers are evident in the market adjusted model, where significantly negative or positive returns were experienced by an individual company. Koop (2005) outlines how outliers could skew a dataset, if the outliers are relatively large. Hence the

outliers were removed and the cumulative abnormal returns re-examined. The outliers are outlined in Appendix F. They consist of three cross-border deals and three domestic deals. For each of the deals each of the returns for the various event windows were significantly greater than the mean returns. Kirloskar Brother Ltd acquired SPP Pumps in the UK in 2003 and the returns for the event window (-10, 10) were 54 percent, while for the event window (-2, 2) returns were 15 percent, which are significantly different from the mean. Triton Corporation Limited acquired West Talk Corporation Limited in the UK in 2007, and the acquiring firm shareholders experienced losses of -35 percent for the event window (-10, 10). These are two examples of the most extreme outliers, however their presence can skew the data set and the results.

Table 4.6: Market Adjusted Model excluding Outliers

	N	Mean	Minimum	Maximum	T-Statistic	P-Value
Market Adjusted Model CAR (-10, 10)	211	2.26%	-28%	45%	2.724	.007***
Market Adjusted Model CAR (-2, 2)	211	2.07%	-20%	28%	4.212	.000***
Market Adjusted Model CAR (0, 0)	211	1.38%	-7%	18%	5.062	.000***

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

As can be seen from table 4.6, the results do not significantly differ with the removal of the outliers from the data set. For each event window the shareholder returns decrease marginally. Previously outlined in table 4.4 returns for the event windows (-10, 10), (-2, 2) and (0, 0) were 2.49, 2.28 and 1.45 percent respectively. With the removal of the outliers the returns have fallen to 2.26, 2.07 and 1.38 percent respectively. All results are statistically significant at the 1 percent confidence interval.

Cross-border & Domestic Announcement Effect

Research Question 2: Is there a difference in shareholder returns from domestic acquisitions as oppose to international announcements?

Presented in table 4.7 are the differences in returns experienced by acquiring firm shareholders. The results are consistent with the cross-border and multinational hypothesis effect.

Table 4.7: CAAR of Domestic and Cross-Border M&A

		N	Mean	Std. Deviation	P-Value	T-Statistic
Market Adjusted Model CAR (-10, 10)	Cross- Border	111	2.92%	0.127	0.630	0.482
	Domestic	106	2.05%	0.140		
Market Adjusted Model CAR (-2, 2)	Cross- Border	111	2.97%	0.072	0.183	1.336
	Domestic	106	1.57%	0.081		
Market Adjusted Model CAR (0, 0)	Cross- Border	111	2.31%	0.046	0.003***	3.021
	Domestic	106	0.55%	0.038		

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

Table 4.7 demonstrates the mean CAAR for domestic and cross-border deals and the results suggest while returns are positive for both subsamples there is no significant difference between them except for the announcement day itself when cross border acquirers are deemed to incur significantly greater gains compared to their domestic counterparts. Hence on average upon announcement cross-border deals are deemed on average to be more wealth enhancing for acquiring firm shareholders, suggesting supporting for the positive cross-border hypothesis.

Multiple & Single Acquirers Announcement Effect

Research Question 3: Is there a difference in shareholder wealth effects for multiple acquirers as oppose to single acquirers?

Outlined in table 4.8 are the differences in returns between multiple and single acquiring firms. The results indicate that multiple acquirers consistently earn higher returns.

Table 4.8: CAAR for single acquirers and multiple acquirers

	Multiple Acquirer	N	Mean	Std. Deviation	P-Value	T-Statistic
Market Adjusted Model CAR (-10, 10)	Multiple	104	2.53%	0.133	0.752	0.037
	Single	113	2.46%	0.134		
Market Adjusted Model CAR (-2, 2)	Multiple	104	2.72%	0.073	0.319	0.806
	Single	113	1.88%	0.079		
Market Adjusted Model CAR (0, 0)	Multiple	104	1.63%	0.044	0.71	0.606
	Single	113	1.27%	0.043		

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

While the results suggest no statistically significant difference in returns to multiple versus single acquiring shareholders, they do imply that multiple acquirers earn slightly higher returns for all the windows. Although the returns decrease as the event window narrows multiple acquirers consistently earn greater returns. This could signify a learning effect for multiple acquirers where multiple acquirers learn from previous M&A transactions in comparison to single acquirers.

Bid Toehold Announcement Effect

Research Question 4: Is there a difference in shareholder wealth effects for those with a toehold in the target as oppose to those without?

Another determinant of acquiring firm shareholder returns which was discussed in the literature review was the impact on returns of the bidding firm having a previous toehold in the target. Table 4.9 identifies that returns are on average negative.

Table 4.9: CAAR for acquiring which have a previous Toehold in Target Company

		N	Mean	Std. Deviation	P-Value	T-Statistic
Market Adjusted Model CAR (-10, 10)	Bid Toehold	10	-3.50%	0.060	0.059*	-1.463
	No Previous Toehold	207	2.80%	0.136		-2.986
Market Adjusted Model CAR (-2, 2)	Bid Toehold	10	0.02%	0.037	0.084*	-0.952
	No Previous Toehold	207	2.40%	0.078		-1.851
Market Adjusted Model CAR (0, 0)	Bid Toehold	10	0.30%	0.031	0.243	-0.850
	No Previous Toehold	207	1.50%	0.044		-1.173

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

The results indicate that two of the event windows are statistically significant at the 10 percent confidence interval suggesting higher returns across each event window for those acquiring without a previous toehold, with the highest returns in the event window (-10, 10). Each event window indicates that there is a difference between firms acquiring with a previous toehold and those acquiring without a toehold. As the event windows get closer to the announcement day, announcement returns decrease for firms acquiring

without a previous toehold, whereas the returns for acquiring firms with a previous bid toehold increases.

Merger Wave Announcement Effect

Research Question 5: Is there a difference in returns to acquiring shareholders from deals announced during the merger wave as oppose to those not in the wave?

It is evident from table 4.10 that the sample is unevenly spilt between M&A announced during the sixth merger wave than in any other year. The majority of deals were announced during the sixth merger wave.

Table 4.10: CAAR for Sixth Merger Wave 2003 to 2007

	Merger Wave	N	Mean	Std. Deviation	P-Value	T-Statistic
Market Adjusted Model CAR (-10, 10)	2003-2007	124	3.03%	0.137	0.806	0.617
	All Other Years	91	1.88%	0.130		0.623
Market Adjusted Model CAR (-2, 2)	2003-2007	124	2.63%	0.074	0.275	0.653
	All Other Years	91	1.93%	0.081		0.643
Market Adjusted Model CAR (0, 0)	2003-2007	124	1.81%	0.044	0.879	1.405
	All Other Years	91	0.97%	0.043		1.412

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

The results depicted in table 4.10 suggest that returns on average are higher during the merger wave than in all other years. Although the results are not statistically significant across any of the event windows, the results are consistent for all the event windows. There is a difference in returns between deals announced during the merger wave and those announced in all other years. The wider window (-10, 10) indicates higher returns of 3.03 percent, than the shorter window (0, 0) which shows returns of only 1.81 percent

for acquiring firm shareholders. In contrast announcements for any other years show returns of only 0.97 percent on the announcement day. Yet surprisingly no statistical significance is found. However the results show evidence that merger waves matter in emerging economies, with acquiring firm shareholders experiencing positive returns. Table 4.11 outlines the mean-adjusted returns and shows that the event windows are statistically significant, for all event windows. The findings of the mean-adjusted returns confirm with statistical significance the findings of the market-adjusted model. There is a significant difference in returns to acquiring shareholders from deals announced during the merger wave as oppose to those not in the wave.

Table 4.11: CAAR for Mean-adjusted Returns for all event windows

	Merger Wave	N	Mean	Std. Deviation	P-Value	T-Statistic
Mean Adjusted Model CAR (-50, 0)	2003-2007	124	4.56%	0.297	0.074*	1.619
	All Other Years	91	-2.86%	0.374		1.563
Mean Adjusted Model CAR (-10, 10)	2003-2007	124	2.07%	0.156	0.002***	1.443
	All Other Years	91	-1.54%	0.211		1.379
Mean Adjusted Model CAR (-10, 0)	2003-2007	124	2.62%	0.134	0.099*	0.990
	All Other Years	91	0.66%	0.156		0.967
Mean Adjusted Model CAR (-2, 2)	2003-2007	124	2.57%	0.085	0.093*	1.462
	All Other Years	91	0.73%	0.099		1.429
Mean Adjusted Model CAR (-2, 0)	2003-2007	124	2.53%	0.073	0.042**	1.725
	All Other Years	91	0.66%	0.086		1.684

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

Table 4.11 demonstrates average returns each window for the mean-adjusted returns and are again consistent with table 4.10 of the market adjusted model.

Our findings differ to those of Alexandridis et al. (2011) in that they found that during the latest merger wave returns to acquiring shareholders were negative on average. The difference could possibly be due to differences in Indian acquiring firms, which could have a greater impact on developed countries. Another possible explanation for the difference could be the recent phenomenon of M&As in the Indian market.

UK & US Announcement Effect

Research Question 6: Is there a difference in shareholders wealth effects domestic acquiring into the US or UK as oppose to other target markets?

Table 4.13 outlines the returns for Indian acquiring shareholders following the announcement of the purchase of a UK company. The tables indentifies a difference in returns between UK targets and targets located in other countries.

Table 4.13: CAAR following acquisitions of UK target companies in comparison to all other cross-border targets

	UK vs. Rest	N	Mean	Std. Deviation	P-Value	T-Statistic
Market Adjusted Model CAR (-10, 10)	UK	29	4.06%	0.150	0.797	0.555
	All Others	82	2.52%	0.120		0.498
Market Adjusted Model CAR (-2, 2)	UK	29	4.94%	0.082	0.302	1.726
	All Others	82	2.27%	0.068		1.581
Market Adjusted Model CAR (0, 0)	UK	29	3.38%	0.054	0.056*	1.458
	All Others	82	1.93%	0.043		1.304

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

Documented in table 4.13 are the results of the final research question which this study addresses. That is to assess the impact of the target nation in the differences in returns for the acquiring firm shareholder returns for each event window. Deals into the UK account for 26 percent of the sample. The UK is a unique market for Indian due to the high level of corporate control and the fact that India was a former colony of the UK. The results

suggest greater gains for Indian acquiring into the UK than into all other target nations. Although only one window is statistically significant the results are consistent across all windows. The difference in UK targets in comparison to all other nations is deemed statistically significant in one window which is the shortest one around the announcement day (0, 0). The returns for the event windows (-10, 10), (-2, 2) and (0, 0) are 4.06, 4.94 and 3.38 percent respectively. The results suggest that on average acquiring firm wealth effects are greater when the target is located in the UK as oppose to other target nations. Similarly as the US is the largest target nation accounting for 45 percent of the cross-border deals, hence we examine if wealth effects differ in it in comparison to all other targets. The results are shown in table 4.14. It transpires that acquirers on average fare better from acquiring outside the US, where gains are greater in other target countries analysed in this sample. The wealth effects vary from 1.54 percent for the 21 day event window to 1.56 percent for the announcement day. In contrast to returns of 4.05 percent and 2.92 percent experienced in similar windows. Yet results for acquiring firm shareholders are statistically insignificant, depicted is a difference in returns across the different target markets.

Table 4.14: CAAR for US target companies in comparison to all other cross-border targets

	Acquirer Nation	N	Mean	Std. Deviation	P-Value	T-Statistic
Market Adjusted Model CAR (-10, 10)	US	50	1.54%	0.126	0.576	-1.028
	All Others	61	4.05%	0.129		-1.031
Market Adjusted Model CAR (-2, 2)	US	50	1.90%	0.074	0.661	-1.410
	All Others	61	3.84%	0.071		-1.404
Market Adjusted Model CAR (0, 0)	US	50	1.56%	0.048	0.612	-1.546
	All Others	61	2.92%	0.044		-1.534

***Statistically significant at the 1% confidence interval

**Statistically significant at the 5% confidence interval

*Statistically significant at the 10% confidence interval

In summary our findings suggest there is a gradual increase in the number of deals across the time period examined 2000 to 2010. The peak of cross-border M&A deals into developed countries occurred in 2007 where a merger wave is evident, with acquiring

firm shareholders experiencing positive returns throughout the sixth merger wave. Although the majority of the deals were domestic deals, on average domestic M&As were less wealth creating than cross-border M&As into developed economies. There was a considerable volume of M&A deals throughout the merger wave, and returns on average were positive for acquiring firm shareholders which differs to that depicted by Alexandridis et al. (2011).

We find that the wealth effects from domestic and international acquisitions for Indian acquiring companies are positive and statistically significant regardless of the event study methodology used. Some evidence persists to suggest that there is a positive cross-border wealth effects as gains are higher in international deals compared to the domestic transactions. While returns to multiple acquirers appear higher (but are not statistically significant from zero), the presence of a toehold has a negative impact. Surprisingly, returns are statistically higher in the merger wave era than in all other years. Finally controlling for the key target countries the UK and the US respectively, suggest returns to Indian acquiring firm shareholders are higher (and statistically so), following the announcement of a UK deal which contrasts to lower returns (not statistically significant) for those acquiring in the US.

Conclusion

This chapter has identified the key findings of the study which are interesting and worthy of further analysis and discussion in the next chapter. The findings will also be compared to previous literature in the next chapter.

Chapter Five: DISCUSSION

DISCUSSION

Introduction

The purpose of this chapter is to discuss the research findings which were presented in the previous chapter. The most pertinent points which merit discussion post research analysis will be documented in this chapter. The discussion of the results will incorporate a comparison of the relevant empirical literature presented earlier in Chapter two. Any comparisons or contrasts of note with the published literature will be the central theme of this chapter.

Announcement Effect for shareholders of Indian acquiring companies

The primary aim of this study is to investigate the wealth effects for shareholders of Indian acquiring firms following the announcement of both domestic and international acquisitions. We find that there is a positive announcement effect for shareholders under all three windows around the announcement day. The results are statistically significant and indicate acquiring firm shareholders gain on average returns of two percent or more upon the announcement of an M&A.

Two different event study methodologies were utilised in order to analyse the announcement returns for acquiring firm shareholders. The market-adjusted model used three different event windows similar to previous empirical studies. Each of these windows establish similar results with acquiring firm shareholders suggested to experience significantly positive returns which are statistically significant at the one percent confidence interval. Furthermore the results indicate that acquiring firm shareholders experience greater returns in the 21 day event window (-10, 10), which is not surprising as this includes the build up period to the announcement.

The second method which has been deployed in this study to analyse the announcement effect is the mean-adjusted returns, however the results are somewhat different to the market-adjusted model. The wider event window (-50, 0) is statistically insignificant and

indicates returns of only 1.02 percent. The narrower event windows (-2, 2) and (-2, 0) are statically significant at the one percent confidence interval and indicate returns of 1.72 and 1.69 percent respectively. The differences in the results between the market-adjusted model and the mean adjusted returns could be due to the mean adjusted model accounting for the market and changes in the market. The returns of the market are not taken into account in the market-adjusted model. However the market adjusted model is considered a more accurate model by researchers.

Although a number of outliers existed, when these were removed from the data set, the results remained relatively consistent indicating that they did not hugely skew the average returns.

The results of this study differ from the results of previous studies, which have identified that the announcement effect should be on average negative for acquiring firm shareholders. Studies by Boateng and Uddin (2009), Gregory and McCorriston (2005) and, Moeller et al. (2005) conducted in developed countries find acquiring firm shareholders at best breakeven. Boateng and Uddin (2009) analysed UK acquiring firms and find that in the short-run UK acquirers do not earn statistically significant positive abnormal returns in the short-run. Similarly Gregory and McCorriston (2005) find that UK acquirers earn little or no returns in the short-run. Moeller et al. (2005) found that acquiring firm's shareholders lost 12 cents for announcements made between 1998 and 2001.

Ramakrishnan (2010) examined the wealth effects following the announcement of an acquisition for 34 matching pairs in India. The results suggest that acquiring firm shareholders at best breakeven. The results of this study find that on average acquiring firm shareholders experience positive returns upon the announcement of an M&A. Aybar and Ficici (2009) also find acquiring firm shareholders experience negative returns on the announcement day. However the results are similar to the study conducted by Chu et al. (2009) who found positive returns in Indian markets.

As has been previously discussed other studies have indicated that acquiring firm shareholders experience on average negative returns or at best breakeven upon the announcement of an M&A. This study finds that on average acquiring firm shareholders experience on average positive returns and therefore the deals are seen as value creating,

and that the managerial motive is deemed synergistic for the majority of these deals. This is consistent with the growth of the Indian economy throughout the past decade. However the wealth effect are not positive for all acquiring firm shareholders, where a number of outliers exist, where shareholders have experienced negative returns of as much as 35 percent.

The various event windows indicate that for the wider event window, acquiring firm shareholders experience greater returns. Although there could be a number of issues which are including the returns, the markets in general are exhibiting support for the semi-strong form of EMH. This suggests that the share price reflects are available information. The event window (-10, 10) signifies larger returns than the event window (0, 0), which could signify a leakage of information to investors.

Announcement Effect of Domestic & Cross-Border Deals

The second research question which this study attempts to address is the difference in shareholder returns from domestic acquisitions as oppose to international announcements. The total sample consisted of 217 deals, of which 111 are cross-border and 106 were domestic deals. This study finds that there is a significant difference between cross-border and domestic deals on the announcement day.

Returns for shareholders are on average 2.3 percent for cross-border deals in contrast to returns of only 0.5 percent for domestic announcements (which are statistically significant at the 1 percent confidence interval). The results for each of the event windows are statistically significant suggesting that there is a difference in wealth effects experienced by acquiring firm shareholders following the announcement of a cross-border M&A.

The results are similar to those of Doukas and Tarvlos (1988) who found significant positive returns for US acquiring firms upon the announcement of an international M&A. Chi et al. (2011) also find that acquiring firm shareholders benefit upon the announcement of a cross-border M&A in the two Chinese stock exchanges.

Yet the results differ to that found by Mann and Kohli (2011), who found that target firm shareholders experience negative returns upon the announcement of an international M&A by an Indian acquiring firm. Aybar and Ficici (2009) also found that acquiring firm

shareholders experience negative returns on the announcement day for cross-border M&As by emerging market multinationals.

The results for studies on developed markets also find negative returns upon the announcement of a cross-border M&A. Aw and Chatterjee (2004) found that for UK acquiring firm shareholders experience on average negative returns upon the announcement of a cross-border M&A into the US and Continental Europe. Moeller and Schlingemann (2005) report similar findings for cross-border acquisitions by US acquiring firms.

Prather and Min (1998) discuss that the existence of the multinational network hypothesis, should enable acquiring firm shareholders earn positive returns upon the announcement of a cross-border M&A. The positive wealth effects for cross-border M&As which has been found in this study, provides evidence that the multinational network hypothesis exists in India. That is that international expansion creates options that can be exercised to create a globally maximising network. Through international expansion of Indian firms could create opportunities in the future in the markets where these multinationals are expanding into.

There is also evidence that cross-border M&As are creating a synergistic effect for the company. Cross-border M&As are seen as value creating by investors. This would indicate that the combined entity is more value creating than the two entities operating independent of each other. Although Kumar (2009) suggested that emerging multinationals have begun acquiring abroad since the beginning of the financial crisis in 2007, this study finds that these acquisitions are positive for acquiring firm shareholders. The market is favouring M&A as a means of global expansion for Indian companies. Cross-border M&A is seen as wealth creating and there is a synergistic effect occurring for Indian firms acquiring into developed markets.

Another explanation for the positive returns experienced as a result of the announcement of a cross-border M&A could be the spill over of governance which may be occurring. Indian companies acquiring into markets such as the US and the UK could be experiencing positive returns as the corporate governance regime in those countries is much stronger than in India (Mohan, 2006). Investor protection in the UK and the US could be having a positive effect on Indian acquiring firm shareholders.

Acquisitions into the UK and US

While there is no study at present which has analysed the differences of Indian acquiring firm shareholders, where targets are located in the UK or the US, this study aims to consider if there are differences in the two target regions. The results show that acquiring firm shareholders of targets located in the UK experience positive returns on average in comparison to returns for other cross-border targets.

There is a statistically significant difference on the announcement day for those acquisitions located in the UK and those located in other countries. Acquiring firm shareholders are deemed to experience returns in excess of three percent in comparison to returns of only 1 percent for all other cross-border deals.

In contrast returns following the announcement of an acquisition of US targets are only just over one percent in comparison to returns of nearly four percent for all other cross-border targets. The results differ to that found by Boateng and Uddin (2009), who found that acquiring firm shareholders earned positive returns following the announcement of a deal in North America, however acquisitions in Europe suffer negative returns for acquiring firm shareholders.

The differences found between the two countries could be due to the higher levels of investor protection which exist in the US. Following the collapse of Enron in the early 1990s and the recent financial crisis, there are higher levels of corporate governance in the US. The introduction of the Sarbanes Oxley Act in 2002, has increased investor protection, and has enhanced standards for all public companies operating in the US. However the wealth effects for Indian acquiring firm shareholders of US targets, are not negative just one percent and are significantly lower than the four percent experienced for all other cross-border targets. This study has not considered the industry sectors of which Indian companies are acquiring into or the status of the target company and therefore these could be impacting the returns to acquiring firm shareholders.

The difference in returns between US and UK targets could also be due to the trade links which exist between India and the UK, as India was a former colony of the UK and Indian firms have been utilising these trade links in recent years. Mohan (2006) discussed how the UK has been the host of Indian outward FDI over the past decade not only

because of India being a former colony, but also because the UK acts as an entry point into the EU. The EU market is an open market, and a company operating in the EU can reach customers throughout all EU countries. This could be an explanation for the positive wealth effects experience by acquiring firm shareholders. The lower returns experienced by acquiring firm shareholders of US targets could be due to an exchange rate effect, however this is beyond the scope of this study.

Determinants of Acquiring Firm Shareholder Returns

The final aim of this study was to attempt to analyse a number of determinants which could explain Indian acquiring firm shareholder returns. This study attempted to analyse the difference between multiple and single acquirers in the sample. Although all of the event windows were statistically insignificant the results show that there is a difference between the returns experienced for single and multiple acquirers. Multiple acquirers earn greater returns than single acquirers which are similar to the results found by Camerlynck et al. (2006). This could be due to a learning effect which multiple acquirers could be experiencing, upon acquiring a number of targets. Another explanation could be that multiple acquirers are familiar with the process and the integration of the two entities occurs easier for them. This also suggests synergistic effects for multiple acquirers.

Another variable analysed in this study was the impact of a previous bidder toehold for acquiring firm shareholders. The results in this study show that there is a significant difference in returns experienced by acquiring firm shareholders when the acquiring firm has a previous toehold in the target company. When a previous toehold is present acquiring firm shareholders experience negative returns. The findings in this study are similar to those found by Le and Schultz (2007), who find that bidders with a toehold earn significant returns compared to their non-toehold counterparts. This suggests that hubris or agency motives could be the managerial motives surrounding M&As where a previous toehold is present.

The final variable which was if there was difference in returns to acquiring shareholders from deals announced during the merger wave as oppose to those not in the wave. This study finds that there is a difference in returns for deals which are announced during the sixth merger wave. Acquiring firm shareholders experienced higher returns on average

during the merger wave. The results differ of that found by Alexandridis et al. (2011), where they found that acquiring firm shareholders experienced negative returns during the merger wave. These results could be similar to that postulated by Kumar (2009), who suggested that the valuations of firms in developed countries more favourable since the financial crisis in 2007. In the years leading to the financial crisis and during the financial crisis there has been an increase in Indian companies purchasing companies in Anglo-Saxon countries. Emerging market multinationals are acquiring into developed economies as the firms are more affordable. This would also suggest the presence of synergy in cross-border deals.

Conclusion

In summary, this study finds on average positive returns for Indian acquiring firm shareholders who acquire in India and into developed markets. Indian acquiring firm shareholders incur greater returns for cross-border M&As than domestic M&A announcements. UK target firms have a more positive effect for Indian acquiring firm shareholders than US target firms. This chapter has discussed the results of this study and compared the results to that found by previous studies conducted on the announcement effect of acquiring firm shareholders.

Chapter Six: CONCLUSION

CONCLUSION

Overview

The aim of this research was to explore acquiring shareholder returns of Indian firms acquiring in India and into developed economies. An event study methodology was deployed to capture the stock market reactions to the announcement of M&As in India. Two models were used namely the market adjusted model and mean adjusted model in order to calculate cumulative abnormal returns for acquiring firm shareholders around the announcement day. On average returns on the announcement day are 1.45 percent and for the wider window (-10, 10) returns are 2.49 percent. The results also analysed several variables in order to test which factors help explain shareholder returns. The findings suggest a significant difference between shareholder returns of cross-border and domestic M&As on the announcement day, where cross-border M&As yield acquiring shareholder returns 2 percent higher on average returns than domestic M&As.

Another significant factor outlined in this study is the difference in returns despite the location of the target nation. Acquiring firm shareholders are deemed to earn significantly more than when the target is located in the UK, than in any other country. A possible rationale for this could be the UK is a very attractive and open takeover market for Indian firms. Another explanation for this is that India was a former colony of the UK and the UK acts as a gateway to Europe. The UK provides largely very positive returns for deals into the UK in contrast to deals into the US.

Another interesting finding is the deals which occurred during the most recent merger wave as identified by Alexandridis et al. (2011) appear to yield significant returns for acquiring firm shareholders in comparison to those which were announced any other year.

Practical implications

This study has provided a number of implications for academia and practice on Indian firms acquiring into developed economies. Although there was a relatively small sample and limited time frame, the study suggests that acquiring firm shareholders earn on average positive returns for the period 2000 to 2010. These results are important for Indian firms who wish to expand globally, as M&As could be an important form of strategic growth. The results are also important to policy makers in India, as the reforms which are currently occurring in the M&A market should continue. This market is also worthy of further research as India continues to expand, especially in regards to the financing of these deals.

It is interesting to find that the announcement effects from acquisitions by Indian firms are positive. This contrast to the results found by studies in developed markets. However the results are not consistent with the results reported by Ramakrishnan (2010) who investigated target and acquiring firm shareholder returns in India and find negative returns for acquiring firm shareholders. This could be due to the time frame analysed, however the results provide an opportunity for a study to investigate the differences in returns between various time frames and further analysis of the variables which could contribute to the variations in returns.

Deals can be synergistic and have potential to add value especially if cross-border Indian acquisitions are more successful as a result. These results are important to Indian firms who utilise M&A as their strategy for growth. The rationale for this is interesting as the results indicate 'new comers' to the international M&A market.

Limitations

Whilst this study sets out to analyse the differences in shareholder returns of the announcement by Indian acquiring firms for domestic and cross-border M&As and deploys two different event study methodologies there are a number of limitations. These include the study focusing on Indian acquiring firms only. No other emerging market was included in the study and therefore the results are limited to M&As in India. The study

also only focused on Indian public companies and did not control for the status of the target company.

Another limitation encountered in this study is that the wealth effects for the target were not examined. A more comprehensive study would analyse both bidding and target shareholder returns for Indian acquiring companies.

The methodology utilised in this study was a quantitative approach and only analysed the short-term wealth effects for acquiring firm shareholders. The longer term wealth effects for the acquiring were not analysed. The event study only deployed two models. The market model was not analysed and this is regarded as the most superior model of all event study models. However this was beyond the capability of this study due to time constraints and the availability of data.

The bid characteristics which this study examined did not consider the use of financial ratios which could indicate the impact of the deals on the company as a whole. Another consideration which this study did not examine is the corporate governance regimes across the target countries.

Only the acquiring firm shareholder wealth effects were analysed in this study where the effects on other stakeholders, for example the employees, customers and suppliers, were not analysed or accounted for. Finally this study deploys a quantitative based approach and ignores the integration process of the two firms and the post performance of the deal.

Recommendations for Further Research

The limitations associated with this particular research study leaves significant opportunity open for further research in the area. A more comprehensive analysis could be obtained through the use of wider number of event windows.

Another extension of this study could be to extend this study beyond India and into other emerging markets. It would be interesting to conduct a comparative analysis of M&A activity between India and Brazil, as recently Brazil's M&A market has grown enormously.

An examination of the long term returns for Indian firms could be conducted over one or two years, in order to analyse if the returns are consistent for a longer time frame.

Another area for further research would be to assess the impact on both acquiring and target shareholders, as the returns experienced by target shareholders could significantly differ to the results found in this study. Controlling for the acquiring company having a prior presence in the target country could also explain the difference in returns between domestic and cross-border acquisitions.

As both the UK and US have similar markets for corporate control and financial systems, the difference in the returns between the UK and the US could be analysed. The impact the exchange rate has on returns could also be investigated especially given the strength of the US dollar prior to the financial crisis.