Do international acquisitions by emerging-economy firms create shareholder value? The case of Indian firms

Sathyajit R Gubbi[1],
Preet S Aulakh[2],
Sougata Ray[1], MB Sarkar[3]
and Raveendra Chittoor[4]

[1]Indian Institute of Management Calcutta, Kolkata, India; [2]Schulich School of Business, York University, Toronto, Ontario, Canada; [3]Fox School of Business, Temple University, Philadelphia, PA, USA; [4]Indian School of Business, Hyderabad, India

Correspondence:
PS Aulakh, Schulich School of Business, York University, Toronto, ON M3J 1P3, Canada.
Tel: +1 416 736 2100, ext. 77914;
Fax: +1 416 736 5762;
E-mail: paulakh@schulich.yorku.ca

Abstract
While overseas acquisitions by emerging-economy firms are gaining increased attention from the business press, our understanding of whether and why this inorganic mode of international expansion creates value to acquirer firms is limited. We argue that international acquisitions facilitate internalization of tangible and intangible resources that are both difficult to trade through market transactions and take time to develop internally, thus constituting an important strategic lever of value creation for emerging-economy firms. Furthermore, the magnitude of value created will be higher when the target firms are located in advanced economic and institutional environments: country markets that carry the promise of higher quality of resources, and therefore, stronger complementarity to the existing capabilities of emerging-economy firms. An event study of 425 cross-border acquisitions by Indian firms during 2000–2007 supports our predictions.
Journal of International Business Studies (2010) **41,** 397–418.
doi:10.1057/jibs.2009.47

INTRODUCTION

For proud Indians, nothing – except perhaps victory for their national cricket team – is as sweet as the sight of Indian companies marauding acquisitively across the globe. And marauding they are. … The tide of foreign acquisitions by Indian companies will continue to rise, with more and bigger deals. How successful they will be is less certain. No big foreign acquisition has failed so far – even though … that is the fate of 60–70% of cross-border takeovers. (*Economist,* 2007a: 71)

As emerging multinationals, or rapidly internationalizing firms, from developing economies become a permanent, sizeable and rising feature of the world economy (OECD, 2006), intriguing questions emerge with respect to their modus operandi. Research has recently explored how, subsequent to institutional and market reforms, domestic firms from emerging economies strategically renew themselves through organic modes of participating in international resource and product markets (Aulakh, Kotabe, &

Teegen, 2000; Chittoor, Sarkar, Ray, & Aulakh, 2009; Luo & Tung, 2007; Zhou, Wu, & Luo, 2007). However, not much is known of their *inorganic* modes of international expansion, and how such strategies impact on the acquirer's performance. This is a surprising omission given that 17% of the world's FDI comprises South–South and South–North flows, a significant portion of which is in the form of cross-border acquisitions (UNCTAD, 2006). In order to address this research gap, we study the effect of international acquisitions on the market valuation of acquiring firms from emerging economies, and how the location of a target firm creates systematic variance in value creation.

Our key contribution highlights a relatively unique feature associated with internationalization of emerging-economy firms. Traditional views on internationalization are embedded in the exploitation perspective where firms make the most of their rent-yielding ownership advantages expanding into overseas markets (Buckley & Casson, 1976; Hymer, 1976). In contrast, recent studies on emerging-economy multinationals present an intriguing perspective: for these firms, foreign expansion is motivated by considerations of gaining access to, and internalizing, strategic resources. Pointing to such firms' rapid and unconventional paths of international expansion, scholars have called for a reassessment of the traditional exploitation-based perspective of international expansion (Almeida, 1996; Chang, 1995; Hutzschenreuter, Pedersen, & Volberda, 2007; Luo & Tung, 2007; Makino, Lau, & Yeh, 2002; Mathews, 2006). In this regard, owing to the inherent problems in transacting intangible resources and capabilities through market mechanisms (Coff, 1999; Gupta & Govindarajan, 2000), overseas acquisitions have been embraced as an important mode of internationalization that enables emerging-economy firms to gain critical assets required for complex problem-solving and strategic renewal (Capron, Dussauge, & Mitchell, 1998; Ethiraj & Levinthal, 2004).

We contend that, contrary to the well-documented inconclusive evidence on value creation for acquiring firms in the existing mergers and acquisitions (M&As) literature (Andrade, Mitchell, & Stafford, 2001; King, Dalton, Daily, & Covin, 2004; Moeller & Schlingemann, 2005; Seth, Song, & Pettit, 2002), emerging-economy firms are likely to experience positive market valuation from international acquisitions in the initial years following domestic economic reforms. With internally

generated growth being time consuming and path dependent in nature, inorganic growth through acquisitions offers the possibility to leapfrog conventional growth cycles. It permits rapid internalization of complementary, tacit, intangible know-how that is both difficult to trade through market transactions and takes time to develop internally, and leads to strategic renewal (Nelson, 2005). The nature of strategic opportunities afforded by global markets and the role that internationalization can play in strategic renewal are factors that are likely to create positive market expectations, and thereby lead to better valuations. As an extension to this reasoning, we also propose that the magnitude of shareholder returns will be higher when the target firms are located in developed countries: where advanced economic and institutional environments carry the promise of higher quality of resources, and/or lead to enhanced resource complements in the combined entity.

The empirical context of our study is the international acquisitions of Indian firms during the period 2000–2007. India, being the second largest emerging economy after China, provides a natural setting for studying outward foreign direct investment (FDI) by way of acquisitions. The rapid growth of the Indian economy in the last decade has bolstered the confidence of domestic enterprises to go across borders with relatively aggressive investments, resulting in a spate of acquisitions. An overview of cross-border acquisitions from India in the period after the economic liberalization reveals a dramatic jump in terms of both value and number of deals (Figure 1). From a meager US$3 million in 1992, the value of cross-border deals by Indian firms jumped to over US$11 billion in 2007. The number increased from just seven in 1992 to 197 in 2007; the average number of deals for the entire period >61. Almost 75% of all the acquisitions since 2003 are cross-border deals, and the number is expected to rise above 90% in the coming years (Accenture, 2006), indicating the overwhelming domination of this particular mode of diversification. A systematic examination of the value creation in these acquisitions is likely to provide valuable insights and contribute to the nascent but emerging literature on internationalization of firms from emerging economies.

The rest of the paper is structured in the following manner. In the following sections, we integrate insights from the internationalization literature and the resource-based view (RBV) to develop specific hypotheses pertaining to cross-border acquisitions
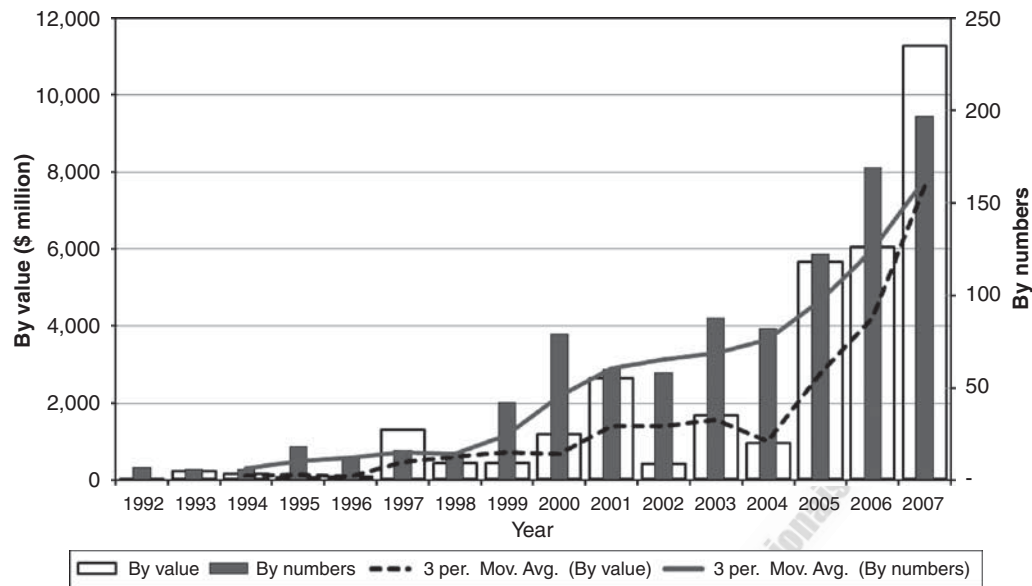
Figure 1 Cross-border deals by Indian firms post-liberalization.
(*Source*: UNCTAD)

by emerging-economy firms. We then describe the methodology and report the empirical findings. In the discussion, we compare our findings with the existing acquisitions literature, discuss the contributions of our findings, and provide directions for future research.

THEORY AND HYPOTHESES

Internationalization of Emerging-Economy Firms
The predominant theoretical view of the FDI in the literature is an asset-exploitation perspective. Here, the value of a firm's rent-yielding proprietary resources and knowledge-based capabilities is appropriated better through internalization of the relevant economic activity within an organization's boundaries, thus favoring the internationalizing firm over indigenous host country competitors (Buckley & Casson, 1976; Hymer, 1976; Makino et al., 2002; Yiu, Lau, & Bruton, 2007). Such advantages can emanate from both structural market failures that occur when few firms possess proprietary and immobile assets and knowledge, and transaction imperfections when external markets for the resource in question are comparatively less efficient than internal ones (Dunning, 1988; Hitt, Hoskisson, & Kim, 1997). While the asset-exploitation perspective addresses why firms undertake international expansion, the stages or process model of internationalization (Johanson & Vahlne,

1977) elaborates how such expansion takes place. Here, experiential learning becomes the key mechanism through which a firm is able to escalate its commitment over time – from low levels of investment in familiar terrains to more substantial ones in unfamiliar and distant markets. Even though these perspectives were developed largely in the Western contexts of Europe and North America, they have been found relevant in explaining the "first wave" of FDI from developing contexts. For instance, Lall (1983) and Wells (1983) describe how firms operating in developing countries establish proprietary advantage that can be exploited through direct foreign investment. Some of the sources of such advantages were low input costs, inexpensive labor, management and marketing skills adapted to third world conditions, and advantages associated with conglomerate ownership. These advantages helped developing economy firms to expand predominantly into other, similar and less developed countries.

In the post-liberalization era, owing to lower market barriers to entry and the lack of restrictions imposed on the extent of inward FDI, high-growth emerging-economy markets have been attracting multinational enterprises (MNEs) in increasing numbers. These established MNEs "wielding a daunting array of advantages: substantial financial resources, advanced technology, superior products, powerful brands, and seasoned marketing and

management skills" (Dawar & Frost, 1999: 119) threaten the local firms' survival. There is, therefore, significant pressure on local firms in emerging economies to transform themselves, especially since the resources and capabilities required to compete in the liberalized, post-reform environment are very different from those in the pre-reform era (Newman, 2000). However, difficulties in acquiring resources and capabilities locally owing to underdeveloped strategic factor markets for finance, technology, managerial capabilities, and other intangible assets at home (Hitt, Dacin, Levitas, Arregle, & Borza, 2000; Hitt, Li, & Worthington, 2005; Uhlenbruck, Meyer, & Hitt, 2003) have forced indigenous firms to look aggressively beyond their national borders. In this context, Luo & Tung's (2007) metaphor of a "springboard" aptly describes how emerging-economy firms systematically and recursively leverage international expansion to acquire critical assets to compete more effectively against their global rivals, both in home markets and elsewhere. Similarly, Mathews (2006) notes how international expansion of these firms has been undertaken as much to search for new resources to underpin new strategic options, as it has been to exploit existing resources. The underlying logic here is that international markets serve as learning laboratories (Hitt et al., 1997) and as channels that enable emerging-market firms to gain access to diverse, locally embedded ideas and knowledge-based capabilities from across the world (Almeida, 1996; Chang, 1995; Doz, Santos, & Williamson, 2001).

In other words, the ownership advantages of a firm arise from proprietary assets and from the capacity to acquire complementary assets owned by other firms in a host country. Therefore, there is sufficient ground to believe that the recent "second wave" internationalization of firms from developing economies is motivated by the need to acquire strategic assets and to learn in addition to exploiting their stock of firm-specific advantages (Makino et al., 2002). Internationalization, as seen from this perspective, is not only "pushed" by firm-specific advantages, but also "pulled" by the potential to acquire resources and capabilities in international markets to develop new advantages (Shan & Song, 1997). We thus propose that cross-border or international acquisitions enable such firms to fulfill some of their imperative needs, achieve accelerated internationalization, and in the process facilitate their strategic leap to "emerging multinational" status.

Value Creation Potential of Overseas Acquisitions for Emerging-Economy firms

The RBV sees a firm as a bundle of resources (Penrose, 1959) that utilizes and recombines these resources to create value (Barney, 1991; Wernerfelt, 1984). The dynamic capabilities perspective extends the RBV by focusing on how firms learn and continue to be relevant in fast-changing environments by altering their resource configurations (Teece, Pisano, & Shuen, 1997). Such reconfiguration efforts require acquiring, accumulating, as well as divesting resources (Karim & Mitchell, 2000; Sirmon, Hitt, & Ireland, 2007). The tacit nature of some types of proprietary and intangible knowhow, resources, and capabilities, however, makes it difficult to purchase them through market transactions. Building on the observation that market mechanisms fail to transact embedded knowledge efficiently (Coff, 1999; Gupta & Govindarajan, 2000), it has been noted that the market for firms may be more efficient than the market for some resources (Capron et al., 1998), thus leading to acquisitions as a particularly popular mode to gain and reconfigure new resources and capabilities.

International acquisitions give emerging-economy firms' access to key strategic resources that may not be available in their domestic market, and thereby enhance their capabilities to be competitive in the post-reform period. Such acquisitions facilitate quicker transformation by enabling transfer of status and reputation which helps emerging-economy firms to overcome the liabilities of newness and foreignness in global markets, and allow integration of new and diverse organizational practices with their traditional management techniques (Cuervo-Cazurra, Maloney, & Manrakhan, 2007; Uhlenbruck, Hitt, & Semadeni, 2006; Vermeulen & Barkema, 2001). We elaborate on these by combining insights from the existing literature and qualitative data from our empirical context.

First, according to Uhlenbruck et al. (2006: 901), "in dynamic environments, acquisitions may reduce bounded rationality and time compression diseconomies … [and] provide the opportunity for the transfer of resources, capabilities, and personnel with critical experience between organizations." The dynamic context of emerging economies, post-market reforms, and the high opportunity costs of building competitive and innovative capabilities in-house, with little or no support from the surrounding environment, magnify the value of time compression economies offered by acquisitions.

As a case in point, consider the acquisition of Novelis by Hindalco, the Aditya Birla Group's aluminum company. According to Kumar Mangalam Birla, Chairman of the acquiring group, Novelis offered an immediate outlet for its surplus aluminum in the form of high-value cans, whereas developing a similar facility in India would have taken at least 5 years. Moreover, Hindalco lacked the necessary expertise to manufacture such value-added products (*Economist*, 2007a). In this regard, acquisitions can be a strong alternative mechanism to indigenous R&D efforts and internal development of innovation capabilities (Business Line, 2007a; Vanhaverbeke, Duysters, & Noorderhaven, 2002). Such capabilities are essential to enter higher value-added segments, and at times may be the only option for emerging-economy firms to catch up with established MNEs. For instance, in announcing the acquisition of US-based Wausaukee Composites Inc. (WCI), the Managing Director of Sintex Industries, a leading plastic manufacturing company in India, commented:

> with a portfolio of established products that have tremendous growth potential … [WCI] will enable [Sintex] to enhance its various skills in manufacturing and marketing of value-added offerings, which will be extremely relevant in a rapidly changing Indian business environment. (Sintex Industries, 2007)

Second, cross-border acquisitions provide ready access to resources and downstream assets that are location-bound (Anand & Delios, 2002). For instance, market-based relational assets, such as relationships with customers and distributors, and intellectual assets, such as knowledge about environment and new growth opportunities (Srivastava, Shervani, & Fahey, 1998), help scale the reputation barrier and overcome the dual liabilities of "foreignness" and "newness" in international markets (Cuervo-Cazurra et al., 2007; Guillen, 2002; Vernon, 1979; Zaheer, 1995). Emerging-economy firms are known to suffer from these liabilities, particularly while operating in developed markets, on account of their poor-quality image, the mature product focus of customers, and resource-rich local competitors (Aulakh et al., 2000). Such a consideration led an Indian pharmaceutical company, Cadila Healthcare Ltd, to acquire Japan-based Nippon Universal Pharmaceuticals. According to the company media release at the time of announcement of the acquisition, the highly regulated Japanese generics market, while having tremendous growth potential, is also highly complex

and dominated by local players. The acquisition of Nippon was expected to provide critical access to a ready manufacturing and marketing base as well as a strong distribution reach, thus enabling Cadila to jumpstart its operations and establish itself in Japan's rapidly evolving generics space (Cadila Healthcare Ltd, 2007). Similarly, in the Indian information technology services industry, Ethiraj et al. (2005) observe that multinational clients were unwilling to outsource high-end work in the early years to low-cost Indian service providers, because either Indian vendors did not possess the requisite skills to undertake these activities or clients lacked the confidence to entrust such activities to these vendors. Therefore, having a local firm in the host market with the requisite skills under common ownership can help firms from emerging economies to build sustained and trusting relationships with clients, apart from scaling up the value chain of services offered. Indeed, in an analysis of the Indian overseas acquisitions between 2000 and 2006 by MAPE Advisory Group (MAPE, 2006), acquisition of client relationships and distribution channels was reported as one of the primary motives for Indian acquirers.

Third, institutional transitions in emerging economies mandate indigenous firms to reinvent their core values, templates, and archetypes (Greenwood & Hinings, 1996; Newman, 2000). Higher-order organizational learning thus assumes importance, a process that can be accomplished only through engaging in exploratory search in knowledge bases, product markets, and organizational practices that are distinct from those available domestically (Katila & Ahuja, 2002; Kriauciunas & Kale, 2006; Rosenkopf & Nerkar, 2001). In this regard, Vermeulen and Barkema (2001: 458) suggest that acquisitions are a "way for organizations to administer shocks to their systems and to counter the process of progressing simplicity". The clashes and tensions engendered within the combined entity due to acquisitions help break organizational rigidities, and thus can revitalize and foster long-term survival of the acquiring organizations (Vermeulen & Barkema, 2001). Exposure to a wide range of international best practices provides emerging-economy firms with a valuable learning opportunity to transform their routines, repertoires, and outlook into that of a global company. This important aspect is exemplified by Tata Tea's acquisition of UK-based Tetley Group in 2000, one of the largest international

acquisitions by an Indian firm. In the words of its Chairman, R K Krishna Kumar:

> Tata Tea was then a totally commodity-driven business; it sold all its produce in bulk and had no direct contact with the consumer. It therefore suffered from all the disadvantages of such an operation – prices would rise and fall often due to global supply and demand, quite independent of the consumer … [and] we had to deal with a multiplicity of competitors, both Indian and multinationals … We needed to bring about transformation… build or buy a brand which had global appeal. (Tata Group, 2000)

Leveraging the complementary strengths of Tata Tea in production and Tetley's international brand appeal and expertise in blending and keeping track of new consumer trends, the company over time has been able to increase its turnover fourfold and transform itself to a beverage company rather than just a tea company (*Financial Times*, 2002; *Outlook*, 2008).

In summary, for emerging-economy firms, overseas acquisitions constitute a unique and important strategic lever of value creation, because they facilitate acquisition of critical resources and capabilities, help overcome "latecomer" disadvantages, achieve accelerated internationalization, and integrate their unique local competencies with capabilities and resources available in foreign markets. Firms that pursue this mode of internationalization are thus likely to create positive market expectations due to the potential of transformation in resources, capabilities and organizational practices to compete effectively with established multinationals at home as well as in global markets. Accordingly, we test the following hypothesis:

Hypothesis 1: International acquisitions by firms from emerging economies generate positive abnormal returns/value for acquiring firms' shareholders.

Our arguments thus far emphasize international acquisitions as a valuable mechanism to tap strategic assets efficiently in foreign markets and catalyze transformation of emerging-economy firms. As a natural extension, we should anticipate that this mechanism will deliver superior results when there is heterogeneity in the quality of strategic assets acquired and their subsequent recombination and redeployment in the combined entity. We argue that the potential for acquisitions to create value for emerging economy acquirers would vary across international markets, largely as a consequence of differences in the quality of

resources and institutional development in the host markets where acquisitions are made.

Since the level of economic development is positively correlated with the quality of resources available in different economies (Ghemawat, 2001; Tsang & Yip, 2007), advanced markets are likely to be superior venues in which to acquire knowledge-based resources. A case in point is the Tata Steel–Corus merger, where it is expected that Tata Steel, with a 20% cost advantage in slab production, will supply low-cost slabs to Corus. In turn, Corus, with its superior product-finishing facilities, branded products and access to a wider geographical market, can realize better average yields for the combined entity (*Business Line*, 2007b). This combination of country-specific location advantages permits deconstruction of the entire value chain, which can unlock the potential of the target. Higher-value front-end capabilities and resources available in developed markets, when combined with the back-end low-cost capabilities of emerging-economy firms, can create private or uniquely valuable resource combinations with higher market valuation (Harrison, Hitt, Hoskisson, & Ireland, 2001). Furthermore, stronger complementarity of acquired capabilities allows greater operational flexibility of the combined entity as multiple market segments can be serviced from different locations. According to BN Kalyani, Chairman and Managing Director of Bharat Forge:

> the Imatra Forging Group [Swedish] acquisition completes our global dual shore capability … [to] produce all of our core products … in minimum of two locations worldwide and provide design and engineering and technology front end support, close to customers for these products. … Imatra Forging Group's technology and product development capability gives us "full service supply" capability across our core engine and chassis components for both passenger cars and commercial vehicles. (Bharat Forge Ltd, 2005)

Similarly, more institutionally developed markets are likely to provide, among other things, "locations with less risk … where knowledge can be acquired or learned, and to more institutional protections for investments" (Berry, 2006: 1125). Indeed, evidence suggests that sectors with relatively higher upstream capabilities, such as R&D, product design and development, as compared with the home market, attract a disproportionately larger share of FDI by way of acquisitions (Anand & Delios, 2002; Eun, Kolodny, & Scheraga, 1996; Shan & Song, 1997). The routines of target firms operating in such well-developed institutional

contexts, characterized by competitive markets and customer-centric focus, are likely to present a richer reservoir of learning for emerging-economy firms, which can subsequently be internalized and applied in different product-market contexts. Therefore, when one considers the benefits of reverse flow of tangible know-how (e.g., technology) and intangible know-how (e.g., organizational practices) from acquisitions (Eun et al., 1996; Seth et al., 2002), it is plausible that the enhanced learning experience offered by targets in more developed institutional environments will be of greater value to emerging-economy firms (Chan, Isobe, & Makino, 2008). Based on these arguments, we test the following hypothesis:

Hypothesis 2: Among international acquisitions that are made by emerging-economy firms, those that involve target firms in more advanced economies (characterized by higher-quality complementary resources and developed institutional environment) will generate greater abnormal returns/value.

DATA AND METHODOLOGY

We consider all "completed" cross-border acquisitions made by publicly traded Indian firms, as reported in the Thomson Financial database, over the period starting January 2000 and ending on December 2007. The negligible incidences of cross-border acquisitions recorded prior to this period make our sample close to the actual population. For each acquisition, the Thomson Financial database furnishes the name of the acquirer, the name of the target firm acquired, the name of the country where the target firm is located, the date of announcement, and other preliminary details. Several factual errors were observed in terms of the nationality and status of the acquiring firm. Also, there were several erroneous entries, which were resolved after cross-verifying with newspaper articles, business magazines, company annual reports, and consultant reports related to each acquisition announced. Additional data were sought from other databases, including Prowess (Center for Monitoring of Indian Economy), Company Master Data (Ministry of Corporate Affairs, Government of India), National Accounts Statistics (United Nations Statistics Division), World Economic Outlook (International Monetary Fund), and Capitaline, to develop a comprehensive proprietary database on Indian foreign acquisitions. A total of 536 acquisitions,

complete in all respects except the stock market data, were thus obtained.

India's premier stock exchange, the Bombay Stock Exchange (ranked first in terms of listed companies and fifth in terms of number of transactions in the world), is the principal stock exchange for this study. Our choice of a stock-market-based acquisition performance measure precludes acquisitions by privately held firms, unlisted public firms, and firms that listed in the year the acquisition announcement was made or thereafter. As a result, the base set of 536 acquisitions reduced to a final set of 425 acquisitions (we rule out any selection bias with a Heckman test under robustness checks), inclusive of 343 majority-stake acquisitions (i.e., those that result in the acquiring firm holding more than a 50% stake in the target firm) and 82 non majority-stake acquisitions – a sample close to 80% of the original set. Also, our data sample size of 425 events is sufficiently large to violate any assumptions of normality, which has been reported to be a critical concern in event study methodology (McWilliams & Siegel, 1997).

We test our hypotheses employing a two-step procedure where: (1) the individual acquisition performance is first assessed using an event study methodology; and (2) the resulting calculated values of performance measure thus obtained is regressed on the explanatory and control variables. Event study enables researchers to determine whether there is an "abnormal" stock price effect associated with an unanticipated event (Hypothesis 1), whereas regression serves to validate whether the cross-sectional variation across firm returns is consistent with the theory (Hypothesis 2), and therefore, lends credibility to the empirical findings of the study (McWilliams & Siegel, 1997).

To test Hypothesis 1, we employ the full sample, that is, inclusive of both majority- and non majority-stake acquisitions. To test Hypothesis 2, in line with past precedence (Capron & Shen, 2007; Rossi & Volpin, 2004; Seth et al., 2002), we are interested primarily in assessing transactions that give the acquirer firm effective control via a majority-stake acquisition. From a theoretical perspective, this is necessary, since majority-controlled acquisitions permit access and effective redeployment of tacit knowledge embedded in other firms, a consequence of majority ownership of strategic assets (Chen, 2008). We regress the abnormal returns on the hypothesized independent and control variables, and account for the standard errors using the Huber–White sandwich estimators.

By this method, the coefficients are exactly the same as in ordinary least square (OLS) regression, but the standard errors take into account minor problems related to normality, heteroskedasticity, large residuals, leverage or influence (Chen, Ender, Mitchell, & Wells, 2000).

Dependent variable. Performance assessment in acquisitions is both challenging and vexing given the broad range of performance metrics that have been adopted in contemporary research (Schoenberg, 2006: Shimizu, Hitt, Vaidyanath, & Pisano, 2004). Past literature uses both subjective (such as assessment of managers involved in the acquisition or the assessment of external expert informants) and objective (including profitability gains of firms involved or the market response to the announcement reflected in the underlying share price movement) performance measures (Schoenberg, 2006). We adopt market response to the announcement, as reflected in the firm's share price movement around the occurrence of the event, as the barometer of acquisition performance.

The choice of this particular measure is justified on several counts. First, it has been extensively used over time in finance and strategic management studies of M&As (e.g., Doukas & Travlos, 1988; Haleblian & Finkelstein, 1999; Markides & Ittner, 1994; Moeller & Schlingemann, 2005). Second, it is an *ex ante* measure of performance that has been found to correlate well with *ex post* performance, demonstrating predictive validity (Haleblian, Kim, & Rajagopalan, 2006; Kale, Dyer, & Singh, 2002). Third, stock performance measures assessed in event study methodology are relatively unbiased compared with other measures, and invariant to the differences in accounting policies across nations and those adopted by firms (Cording, Christmann, & King, 2008).

We use cumulative abnormal returns (CARs) to shareholders as the measure of acquisition performance. Such a measure, calculated over a window period of 11 days is obtained from event study methodology, as outlined in the Appendix.

Independent variables. Our main independent variables measure the quality of resources available in the host economy, and the level of institutional development. According to Scott (1995), institutional environment is shaped by three aspects – regulative, normative, and cognitive – which provide the guidelines for various actors to interact in societies. In economies where such guidelines are well defined and more evolved, organizations enjoy better protection of their proprietary rights, and lowered costs of market transactions and doing business (Meyer, Estrin, Bhaumik, & Peng, 2009). For example, greater emphasis on innovation supported by the more advanced regime for intellectual property protection in the United States has encouraged many MNEs to set up their research and development centers there (Anand & Delios, 2002; Shan & Song, 1997). We expect the two aspects to be correlated, since quality also demands better protection and enforcement laws. We measure the quality of assets and extent of institutional development of an economy with the following constructs.

Our first measure, *developed market acquisition*, is operationalized as a dummy variable, coded 1 if the target firm is located in any of the Organization for Economic Co-operation and Development (OECD) member countries, and coded 0 if the target firm is located in a non-OECD member country. The OECD comprises 30 highly industrialized member countries, producing almost 60% of the world's goods and services. Such a measure of economic development has been used in past literature to categorize nations as developed (e.g., Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007). A second measure, *economic distance* (Ghemawat, 2001), captures the difference in economic development between the host-country market (or target market) and the Indian market as a distance measure. The advantage of this measure is that, apart from being continuous, it also captures the intertemporal variations in the underlying differences between two countries. Following Tsang and Yip (2007), *economic distance* is operationalized by measuring the real per capita gross domestic product (GDP) difference between the host country and India in the year the acquisition is made. We transform this variable by taking the logarithm of the absolute difference to minimize the variation (alternate forms, such as logarithm of the ratio or the ratio of logarithms, resulted in no qualitative difference in the results).

Our third measure, *institutional distance*, captures the differences in normative, regulative, and cognitive constructs between two economies. Following Meyer et al. (2009), we proxy the strength of market-supporting institutions using relevant components (business freedom, trade freedom, investment freedom, labor freedom, and proprietary rights) of the *economic freedom index* developed by

the Heritage Foundation to construct the measure of institutional distance. The components of *economic freedom* provide a portrait of a country's economic policies, and establish benchmarks by which to gauge strengths and weaknesses. Business freedom represents the overall burden of regulation, as well as the efficiency of government in the regulatory process; trade freedom reflects the absence of tariff and non-tariff barriers that affect imports and exports of goods and services; investment freedom scrutinizes each country's policies toward the free flow of investment capital (foreign investment as well as internal capital flows); property rights assess the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state; and labor freedom assesses the legal and regulatory framework of a country's labor market (Heritage Foundation, 2009). For each target country in our sample, we divide the value for the selected *economic freedom index* category for that year by the corresponding value for India, and take the mean across the five ratios thus obtained as the final value. Values >1 signify higher and those <1 reflect lower levels of institutional development relative to India.

Control Variables. Following extant studies in the M&A and internationalization literature, several control measures, such as past firm performance (Haleblian & Finkelstein, 1999; Markides & Ittner, 1994), firm size (Uhlenbruck et al., 2006), and firm age (Sapienza, Autio, George, & Zahra, 2006) of the acquirer firm were incorporated in the regression model. It is likely that better-performing firms self-select the type of acquisition they make, resulting in a favorable response from the market (Haleblian & Finkelstein, 1999). To account for the differences in firm performance prior to the announcement of an acquisition, it is necessary to control for the past performance. We measure *past performance* by taking the acquiring firm's average 3 years' net profit margins (net profit to sales ratio) prior to the event. Taking the average over 3 years can minimize the chances of accounting manipulations, if any. Similarly, *firm size* can also influence the strategic choices made by firms and needs to be controlled. Firm size is measured by taking the logarithm of the firm's average total assets over the 3 years prior to the acquisition. The positive benefits of internationalization are likely to be greater for firms that initiate such internationalization efforts early in their

development path (Sapienza et al., 2006), and hence firm age matters to internationalization performance. *Firm age* is measured by taking the difference between the year of acquisition and the year of incorporation of the firm.

Similarly, Capron and Shen (2007) find that the type of target firm (i.e., private vs public status) influences the acquisition performance. We introduce *private target dummy* (coded 1 if the acquired firm status is private) to capture this effect. The nature of the acquiring firm industry (Markides & Ittner, 1994) is reflected in the manufacturing *dummy* (coded 1 if the acquiring firm belongs to the manufacturing sector). In the context of emerging economies, business group affiliation has been found to affect internationalization and firm performance (Chittoor et al., 2009). Accordingly, we introduce *business group affiliation dummy* (coded as 1 if the acquiring firm is affiliated to a business group) in the regression model. Following Haleblian et al. (2006), we control for firm-level slack in the form of *average leverage* (logarithm of debt to equity ratio averaged over three years prior to the acquisition).

Additionally, we control for international performance in terms of *average export intensity* (measured as the ratio of total export sales to net sales averaged over three years prior to the acquisition), market power in the form of *average market capitalization* (logarithm of average market capitalization over 365 days prior to the event), and *foreign subsidiary dummy* (coded 1 if the acquiring firm is a foreign subsidiary). Finally, the changes in macroeconomic conditions, if any, are accounted for by introducing a set of dummy variables into the model, each representing the year in which these acquisitions were made (Finkelstein & Haleblian, 2003).

RESULTS
Table 1 provides an overview of the sample distribution (the sample includes both majority- and non-majority-stake acquisitions) in terms of key industries, target countries, target market status, target status, and by sectors. As shown in the table, Indian cross-border acquisitions are broad-based, spanning several industries and host countries (both developed and developing). More than two-thirds of all acquisitions are in the developed markets (i.e., countries belonging to the OECD), and the majority of the targets are private firms and subsidiaries (>78%). Not surprisingly, given

Table 1 Sample description[a]

Industry	Number of events	Target country	Number of events
Computer software	123	The United States	139
Drugs and pharmaceuticals	46	The United Kingdom	61
Automobile ancillaries	27	Germany	21
Finished steel	16	Australia	16
Trading	14	Singapore	18
Crude oil and natural gas	8	France	10
ITES	8	Canada	8
Commercial vehicles	6	The United Arab Emirates	7
Other organic chemicals	6	Thailand	7
Diversified	6	China	7
Paints and varnishes	6	Indonesia	6
Gems and jewelry	5	Egypt	6
Cosmetics, toiletries, soaps, and detergents	5	South Africa	5
Tea	5	Romania	5
Banking services	4	Malaysia	5
Soda ash	4	Sri Lanka	5
Telephone services	4	Spain	5
Passenger cars and multiutility vehicles	4	Netherlands	5
Business consultancy	4	Belgium	5
Offshore drilling	4	Others	84
Pesticides	4		
Others	116	Total	425
Total	425	Target status	
		Private	230
Target market status[b]		Public	26
Developed	304	Subsidiary	104
Developing	121	Asset	24
		Branch	26
Total	425	Government	2
		JV	13
Sector			
Manufacturing	245	Total	425
Services	180		
Total	425		

[a]Includes all completed acquisitions by publicly traded Indian acquirer firms.
[b]Categorization based on OECD (developed) and non-OECD (developing) countries.

India's prowess as a global player in the computer software industry, this industry alone accounts for almost 30% of all acquisitions in the period – the highest for any industry. However, in terms of sectors, there is a fairly uniform distribution across the manufacturing and services sectors, with manufacturing accounting for a slightly higher percentage.

Descriptive statistics and correlations are reported in Table 2. Several interesting observations unfold that are worth a comment. Mean export intensity prior to acquisitions across all firms is 40%, suggesting that many of the acquiring firms have a strong export market prior to acquisitions. The available data, however, are inadequate for us to conclude whether these firms had a strong export market presence in the target market where acquisitions are made. The average firm size in terms of total assets and market capitalization is a mere $1.4 and $1.1 billions, respectively, minuscule by global standards. The mean economic distance of almost $30,000 suggests that the bulk of these acquisitions are indeed taking place in advanced countries with high GDP per capita, given that India's GDP per capita in the present millennium has hovered in the range of $500–$800. Finally,

Table 2 Descriptive statistics and correlations[a]

	Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Cumulative abnormal return[b]	2.77	9.25	1.00												
2	Firm age	26.32	19.70	0.01	1.00											
3	Firm size	1446.38	9348.74	−0.16	0.38	1.00										
4	Average net profit margin	−118.78	2291.23	−0.07	−0.01	0.06	1.00									
5	Average export intensity	0.42	0.36	−0.03	−0.32	−0.17	0.07	1.00								
6	Average leverage	0.76	0.88	0.01	0.01	0.26	0.04	−0.31	1.00							
7	Annual market capitalization	1071.60	2755.79	−0.18	0.28	0.78	0.06	0.02	0.02	1.00						
8	Foreign subsidiary	0.08		0.09	−0.18	−0.12	0.02	0.27	−0.15	−0.02	1.00					
9	Private target	0.55		−0.03	−0.14	−0.11	−0.05	0.06	−0.10	−0.07	−0.02	1.00				
10	Business group affiliation	0.65		−0.07	0.36	0.46	−0.04	−0.43	0.14	0.41	−0.40	−0.09	1.00			
11	Manufacturing sector	0.55		−0.07	0.28	0.26	−0.05	−0.42	0.32	0.13	−0.21	−0.15	0.20	1.00		
12	Economic distance	29865.24	14175.07	0.06	−0.20	−0.18	−0.03	0.20	−0.15	−0.02	0.02	0.05	−0.09	−0.12	1.00	
13	Developed market acquisition	0.76		0.08	−0.17	−0.18	−0.03	0.16	−0.13	−0.03	0.04	0.05	−0.11	−0.05	0.74	1.00
14	Institutional distance	1.78	0.33	0.08	−0.16	−0.15	−0.04	0.17	−0.17	0.01	0.05	0.04	−0.03	−0.20	0.59	0.49

[a]Correlations > 0.10 in magnitude are significant at p < 0.05.
[b]One-day event window.
[c]Economic distance in current US$ per person and firm size, and average market capitalization figures expressed in $ million (1 $=40 Indian rupees approx.).

as expected, there is a high correlation between the *developed country* dummy variable, *economic distance,* and *institutional distance*. Using all the three measures in the same regression model can lead to multicollinearity issues, and hence we test them separately in different models.

We tested Hypothesis 1 employing event study methodology. The null hypothesis in an event study tests whether the CAR attributable to an event averaged across all events is equal to zero. We employed a standard *t*-test as well as an alternate method wherein we regress just the CAR values using the Huber–White sandwich estimators and look for significance of the constant term obtained. The latter method divides the mean by robust errors rather than standard errors, and hence is more reliable. There was no difference in the two results; however, we report the result with robust error estimates. The mean CARs for the overall sample and subsamples are reported in Table 3. As evident from the results, mean CARs over a 11-day event window yield 2.58% abnormal returns to shareholders of acquiring firm across all events (i.e., both majority-stake and non-majority-stake acquisitions). This yield increases marginally to 2.76% in majority-stake acquisitions in the target firm and falls marginally to 1.77% in non-majority-stake acquisitions. The probability of these abnormal returns being insignificant is almost nil (p < 0.01), allowing us to reject the null hypothesis.

In order to rule out the alternate possibility of all acquisitions (irrespective of being cross-border or domestic) by Indian firms yielding abnormal gains to shareholders, we gathered additional comparative information on domestic acquisitions made, if any, within the period of our study. We found that 117 (out of the total 227) firms in our final sample also made 293 domestic acquisitions in the period, apart from the cross-border acquisitions. The sample set was large enough for us to conduct another event study and to compare the findings with those of cross-border events. The mean CAR (0.6%) for these within-border acquisitions over the same 11-day event window is positive but not significant (Table 3). Since the test statistics employed in event studies tend to be quite sensitive to outliers (McWilliams & Siegel, 1997), a confirmatory non-parametric Wilcoxon signed-rank test to rule out the influence of outliers is also reported in Table 3. Additionally, we conducted a mean comparison *t*-test for the returns from cross-border acquisitions (*N*=247, mean=2.9%) and within-border acquisitions (*N*=293, mean=0.6%)

Table 3 Event study results

Type of acquisition	Eleven-day window CAR[b]	t	Positive: Negative	Sign-rank Z
All cross-border events (H1)	2.58	5.96**	245:173	5.05**
Only majority-stake cross-border events	2.76	5.54**	202:136	4.84**
Non-majority stake cross-border events	1.77	2.19*	43:37	1.61
All comparable domestic events[a]	0.63	1.35	139:132	0.7

[a]Here, all the domestic (within-border) acquisitions made by firms also making cross-border acquisitions in the study period are considered.
[b]CAR: cumulative abnormal returns; *$p < 0.05$, **$p < 0.01$.

by the same set of acquiring firms. The test rejected the null hypothesis, enabling us to conclude that, on average, cross-border acquisitions by Indian firms generate significant abnormal returns to the shareholders, thus supporting our main contention (Hypothesis 1).

To test Hypothesis 2, we carried out an OLS regression of CARs (obtained from event study) on the explanatory and control variables. The number of usable observations in the regression is lower ($N=315$) than those in the event study ($N=425$). This is because to test Hypothesis 2 we use only the majority-stake acquisitions. Also, some of the control variables have missing values, resulting in those particular observations being dropped. Selection tests indicate no selection bias (see Table 6 for selection bias tests). To ensure that multicollinearity was not a serious issue, we computed the variance inflation factors (VIFs) for the variables used in the model. VIF values ranged from 1.04 to 4.6, with a mean value of 2.20, indicating that multicollinearity is unlikely to confound our findings. The output of the OLS regression with robust error estimates is reported in Table 4. Model 1 accounts for the control variables used in the overall model. The coefficient of average net profit margin (negative, $p < 0.01$) and the manufacturing sector dummy (negative, $p < 0.10$) is significant. The negative impact of past performance on value creation is consistent with earlier reported findings (Finkelstein & Haleblian, 2003). However, the relatively higher gains to acquiring firms in the non-manufacturing sector than in the manufacturing sector indicate that the market expects the non-manufacturing sector (in India's case primarily software services) to perform better. The mean age of the firms in the manufacturing sector in the sample is 31 years, as against that of firms in the non-manufacturing sector, which is 20 years. It is likely that firms in the manufacturing sector, being older, are likely to face greater difficulties in transforming themselves, compared with the younger firms in the service sector.

In Hypothesis 2, we expect the performance of cross-border acquisitions to increase with the level of economic or institutional development of the host country relative to the home country, reflecting the availability of higher-quality complementary resources and capabilities. In other words, the higher the level of development of the host country is with respect to home country, the higher will be the abnormal returns to the shareholders of the acquiring firm. In Model 2, which is our full model, we introduce the first explanatory variable, *developed market acquisition*. The coefficient of this variable is positive and significant ($p=0.03$). In the subsequent model (Model 3), the coefficient of the *economic distance* variable is also positive and significant ($p=0.05$). Finally, the third measure, *institutional distance,* also has a positive and significant ($p=0.065$) coefficient value (Model 4). Thus, in all regression models, our second hypothesis is supported.

Post hoc Analysis

We cross-examined our findings employing several additional specifications to rule out alternate explanations. Fundamental motivations for firms to invest in other markets are market size and the prospects of higher growth abroad. Even if the target economy is developed, and has a lower growth rate than an emerging economy such as India, it is possible that the particular segment in which the target is acquired was experiencing lucrative growth rates compared with the domestic market. For example, in the year 2004 GDP from the manufacture of the chemicals, chemical products and man-made fiber segments in United States (overall GDP growth rate=3.64%) grew at 10.7%, while in the same period, for India (overall GDP growth rate=7.89%), the segment growth rate was 9.8%. Thus, the prospects of a larger market size growing at a higher growth rate can attract investment. The other alternate possibility is that most of the acquisitions made by Indian firms are relatively small, with lower bid premiums

Table 4 Results of OLS regression with 11-day window CAR as the dependent variable

	Model 1	Model 2	Model 3	Model 4
Developed market acquisition (H2)		2.5191*		
		(1.14)		
Economic distance (H2)			0.7296[†]	
			(0.37)	
Institutional distance (H2)				3.590[†]
				(1.94)
Firm age	0.0341	0.0412	0.0407	0.047[†]
	(0.03)	(0.03)	(0.03)	(0.03)
Firm size	−0.6412	−0.4494	−0.4268	−0.495
	(0.53)	(0.52)	(0.53)	(0.54)
Average net profit margin	−0.0003**	−0.0002**	−0.0002**	−0.000**
	(0.00)	(0.00)	(0.00)	0.00
Average export intensity	−1.0471	−1.3763	−1.4401	−0.782
	(1.95)	(1.96)	(1.97)	(2.02)
Average leverage	0.7052	0.7643	0.7541	1.125
	(0.85)	(0.86)	(0.85)	(0.95)
Annual market capitalization	−0.6616	−0.7991[†]	−0.8255[†]	−0.884[†]
	(0.46)	(0.46)	(0.47)	(0.47)
Foreign subsidiary	2.7248	2.9948	2.892	3.16
	(2.39)	(2.35)	(2.38)	(2.39)
Private target	−0.6933	−0.7005	−0.6993	−0.514
	(1.06)	(1.05)	(1.06)	(1.07)
Business group affiliation	0.0162	0.0208	−0.2211	0.068
	(1.55)	(1.55)	(1.54)	(1.55)
Manufacturing sector	−2.0752[†]	−2.2637[†]	−2.1364[†]	−1.83
	(1.20)	(1.21)	(1.20)	(1.21)
Constant	12.0306**	9.7494*	4.9569	3.425
	(4.34)	(4.30)	(5.24)	(5.96)
R^2	0.10**	0.11**	0.11**	0.118*
N	315	315	315	310

[†]$p<0.10$, * $p<0.05$, **$p < 0.01$ significance levels based on two-tailed tests.
Time-period dummies are not reported; unstandardized regression coefficients are reported; robust standard errors are given in parentheses;
CAR: cumulative abnormal returns; OLS: ordinary least square.

and subsequent lower risks, thereby invoking a favorable response from shareholders (Hennart & Reddy, 1997; Rossi & Volpin, 2004). After controlling for these additional possibilities, if our theoretical variable for quality of complementary resources and capabilities and the level of institutional development continues to be significant and positive, our theoretical assertions can be considered to be validated. In order to account for these distinct possibilities, we construct additional variables.

First, as a close proxy of the actual market demand, we collated additional data on acquiring and target firms' industry growth rates and sales at the lowest available levels of industry classification. The database maintained by Euromonitor

International furnishes historic GDP by source at two-digit levels (closest estimate of industry sales) of industry classification (ISIC Rev. 3) and the corresponding year-on-year growth rates for different countries. Market size and market growth rates are expected to be correlated, and as market growth rates across economies are more amenable to comparisons, we control for market growth rates in our regression models (replacing market growth rates with market size did not qualitatively change the outcomes). It is likely that in certain industry segments for some of the years, the target country may have a higher growth rate than that of India, and in others, the converse may be true. Accordingly, we create a spline measure *market-seeking motive* termed *target country advantage* (if the

Table 5 Results of OLS regression with 11-day window CAR as the dependent variable

	Model 1	Model 2	Model 3	Model 4
Developed market acquisition (H2)		4.236*		
		(1.73)		
Economic distance (H2)			1.238[†]	
			(0.72)	
Institutional distance (H2)				6.627[†]
				(3.84)
Firm age	0.076	0.081[†]	0.083[†]	0.080[†]
	(0.05)	(0.05)	(0.05)	(0.05)
Firm size	−0.876	−0.724	−0.706	−0.683
	(0.55)	(0.55)	(0.57)	(0.57)
Average net profit margin	−0.044	−0.03	−0.039	−0.051
	(0.13)	(0.13)	(0.13)	(0.13)
Average export intensity	−1.346	−1.477	−1.738	−1.58
	(3.64)	(3.62)	(3.70)	(3.66)
Average leverage	0.509	0.609	0.642	0.674
	(1.38)	(1.40)	(1.41)	(1.37)
Relative deal size	1.233*	1.224*	1.235*	1.251*
	(0.60)	(0.59)	(0.59)	(0.60)
Foreign subsidiary	1.513	1.953	1.426	1.231
	(3.37)	(3.35)	(3.38)	(3.41)
Private target	0.556	0.483	0.603	0.58
	(1.53)	(1.51)	(1.53)	(1.52)
Business group affiliation	−1.06	−0.997	−1.428	−1.395
	(1.79)	(1.79)	(1.77)	(1.74)
Manufacturing sector	−3.365[†]	−3.384[†]	−3.174	−2.971
	(1.96)	(1.96)	(1.94)	(1.97)
Market-seeking motive (target country advantage)	0.115	0.167*	0.169*	0.155*
	(0.07)	(0.07)	(0.08)	(0.08)
Market-seeking motive (India advantage)	0.097	0.074	0.055	0.045
	(0.11)	(0.11)	(0.12)	(0.12)
Constant	8.023	3.212	−5.116	−8.497
	(6.18)	(6.29)	(9.59)	(11.72)
R^2	0.172	0.191*	0.182[†]	0.184[†]
N	154	154	154	154

[†]$p < 0.10$, * $p < 0.05$, **$p < 0.01$ significance levels based on two-tailed tests.
Time-period dummies are not reported; unstandardized regression coefficients are reported; robust standard errors are given in parentheses;
CAR: cumulative abnormal returns; OLS: ordinary least square.
Subsample with market-seeking motive and deal size as additional controls.

target country's segment growth rate is greater than India's) and *India advantage* (if India's segment growth rate is greater than the target country's), respectively, and introduce it into our regression models. Out of the 63 target countries in our sample, we were able to obtain segment data for 45 countries.

Second, we introduce the logarithm of *ratio of deal value to annual market capitalization* of the acquiring firm as a measure of the *relative deal size*, and drop the market capitalization variable as a control to minimize over-specification. Several

acquisitions in our sample involved private targets with undisclosed deal value, resulting in a lower sample size of 154 events. We report the results of the regression on the expanded model with the subsample in Table 5. Increased R^2 values with the inclusion of additional controls imply that the overall model is distinctly improved, thus further strengthening our contention (models 2, 3, and 4 in Table 5). Also, there is little impact on the direction and significance of the three explanatory variables: *developed market acquisition, economic distance, and institutional distance*. Thus, our

Table 6   Additional analysis and robustness tests

Issue	Test performed	Specification	Finding
Sample selection bias for listed firms	Two-step Heckman procedure (Heckman, 1979; Shaver, 1998)	Firm's propensity to list as a function of the firm size (logarithm of acquiring firm's total assets prior to the acquisition announcement)	Inverse Mills ratio coefficient is negative and significant (p=0.04), the abnormal returns value remains positive and significant (p=0.04)
Inter-temporal variation in abnormal gains to shareholders (McNamara, Haleblian, & Dykes, 2008)	Split sample event study test	Data pertaining to the first 4-year period (first half) and data pertaining to the second 4-year period (second half)	Mean abnormal gains in the first half (N=104) and second half (N=321) are both positive and significant
Impact of confounding events on event study (McWilliams & Siegel, 1997)	Event study of non-confounding events in the 11-day window	Screen out all events in the data set where significant other announcements (e.g., results, another acquisition) made within the event window	Effect of loss of data (N=12) insignificant
Efficiency of information dissemination in the stock market announcements (Miller, Li, Eden & Hitt, 2008)	Event study tests with alternate window periods	5-, 7-, and 15-day period as alternatives	No significant quantitative difference observed
Self-selection of advanced market targets by outperformers	Difference of means test in the absence of an event for firms making developed/developing market acquisitions	Excess of "expected" normal returns over the actual market returns (SENSEX returns) in the event window	No significant difference
Self-selection bias for majority stake acquisitions	Two-step Heckman procedure (Heckman, 1979; Shaver, 1998)	Firms with higher liquid assets (i.e., 3-year average of the ratio of liquid assets to the net income) are more likely to make majority-stake acquisitions	Inverse Mills ratio has insignificant impact on the model

Hypothesis 2 continues to hold even after incorporating additional controls, which suggests that the results are robust. Notably, the coefficient of the relative deal size variable is positive (p=0.04). This implies that shareholders of Indian firms tend to gain more when acquisitions involve larger deal size, contrary to the reported findings in the literature (e.g., Lee & Caves, 1998). On the other hand, the results for the market-seeking motive are as expected, that is, higher segment growth rate of the host country positively aids value creation, while higher segment growth rate in India at the time of the acquisition does not significantly contribute to higher expectations.

We also carried out a series of cross-checks and tests on the data sample to assess for various sampling biases, if any, and sensitivity of the event study methodology. These include self-selection of listed firms, intertemporal variation in shareholder returns, influence of confounding events, stock market efficiency, self-selection of advanced market targets by outperformers, and self-selection of majority-stake events. For the sake of readability and brevity, we summarize the analysis in Table 6.

DISCUSSION AND CONCLUSION
Although there has been a wave of overseas acquisitions by firms from emerging economies (Accenture, 2006), there is little research on the effects of this inorganic mode of international expansion on acquiring firms. Given that international acquisitions imply a potential trade-off with domestic investments at a macro level, with developmental implications for the home countries, and that these acquisitions often imply

serious degrees of leverage and accompanying risk at fairly early stages of internationalization of firms from emerging economies, whether this mode of international expansion is value accretive is of critical interest to scholars, policymakers, and practitioners. In this context, our paper is one of the first systematic studies of whether overseas acquisitions by firms from one such emerging economy, namely India, create value for the acquiring firms. From an analysis of 425 international acquisitions by Indian firms between the years 2000 and 2007, we find evidence of positive abnormal returns for the acquiring firm shareholders. Furthermore, after controlling for alternate explanations, we find that the level of economic and institutional advancement of the host country where the acquisition is made is positively correlated with market expectation of the acquisition performance. These findings, taken together, support theoretical conjectures in the literature (e.g., Hutzschenreuter et al., 2007; Luo & Tung, 2007; Mathews, 2006) that emerging-economy firms use internationalization as a springboard to acquire strategic assets from diverse markets in order to overcome their many disadvantages and become more competitive during periods of institutional transitions. Our findings suggest that overseas acquisitions, with their potential for resource and capability reconfigurations, are an important mode of internationalization to facilitate strategic and organizational transformation of these firms.

Our study also has implications for the M&As literature. Evidence on international or cross-border acquisitions as a value-accretive strategy is mixed and inconclusive (Reuer, Shenkar, & Ragozzino, 2004; Seth et al., 2002; Shimizu et al., 2004; Tuch & O'Sullivan, 2007). While a few studies have reported significant positive gains to shareholders of acquiring firms (Markides & Ittner, 1994; Morck & Yeung, 1991), others find non-significant or negative gains to the acquirers (Conn, Cosh, Guest, & Hughes, 2005; Datta & Puia, 1995; Dewenter, 1995; Eun et al., 1996; Moeller & Schlingemann, 2005). Lamenting the inconclusive findings through their meta-analysis of both domestic and cross-border acquisition studies, King et al. (2004: 196) state that "the wide variance surrounding the association between M&As activity and subsequent performance suggests subgroups of firms do experience significant, positive returns from such activity. Existing models have failed to clearly identify these groups."

In this regard, a few recent studies have identified contextual conditions under which acquisitions create value for the acquiring firms. For instance, using the logic of potential resource complementarities in the combined entity, Uhlenbruck et al. (2006) find significant positive gains to shareholders when traditional firms acquire Internet firms during periods of technological upheaval. Acquisitions of Internet firms provide traditional firms with "the resources and skills needed to exploit the Internet for marketing and/or improving efficiency" (Uhlenbruck et al., 2006: 900). In another context – a study of US acquiring firms in the late 1990s and early 2000s – Francis et al. (2008) find that acquirers of targets from segmented financial markets gain significantly higher returns than those acquiring targets from more integrated financial markets. They attribute the increased gains to the lifting of financial constraints faced by the target firm: that is, the availability of a cheaper source of funding from the acquiring firm's home capital markets. Consistent with the above, Chari et al. (2005) find that acquisitions by developed-country firms in emerging economies create value, and this value addition stems from the potential of transferring superior corporate governance methods to the target firms. The above studies suggest that acquirers gain when there is a potential to transfer the acquirer's capabilities to the target firm.

In contrast, our study converges on the idea that value creation through acquisitions is critically dependent on whether complementary resources and capabilities are being acquired, and on the quality of such resources. We propose that international markets offer better variety and quality of strategic resources and capabilities that emerging-economy firms need to overcome the shortcomings of their home environment. Our analysis shows that, for the same set of Indian firms, there is no significant wealth gain to shareholders in domestic acquisitions. This plausibly occurs owing to relative homogeneity in the institutional environment, and the resource and capability positions of the acquirer and acquired firms. It must be noted that the geographical context of a vast majority of cross-border acquisition studies is the Triad countries (Japan, Europe, and the United States), which are similar in terms of factor markets, infrastructure, institutional rules, and enforcement mechanisms (Brouthers & Hennart, 2007; Makino, Isobe, & Chan, 2004). The limited variation in market conditions in these contexts provides lower potential

for complementary resources between the acquired and acquiring firms, which may explain insignificant value creation – similar to our finding in the case of Indian firms' domestic acquisitions.

However, for international acquisitions, shareholders of Indian firms experience wealth increase, which is further enhanced with the quality of resources of the target firms and the resulting stronger synergy. In other words, when acquisitions are made in advanced markets, which are characterized by better quality of resources and institutions, the acquiring emerging-economy firm's shareholders seem to benefit more. By uncovering evidence of value creation in international acquisitions by firms from a unique context, and also demonstrating the mechanism through which value is created, our study contributes to the literature by identifying "the conditions under which acquisitions make sense as a path to superior performance" (King et al., 2004: 196).

Although our study shows the value-creating potential of international acquisitions for emerging-economy firms, these findings should be considered preliminary, given the narrow methodological and contextual scope of the paper; our contentions are based on the initial evidence available on cross-border acquisitions by firms from a single country and from the expectations of the stock market to these acquisitions. The inherent assumptions in our study open up new possibilities for future research. First, our study is only an exploratory effort to unravel the nuances of cross-border acquisitions by firms from an emerging economy, a phenomenon that is relatively new and under-researched. We identify a few possible sources for value creation in this context. Future studies incorporating more fine-grained variables (e.g., specific measures of resource and capability transfer) could explicate more nuanced findings. A second possible limitation is with respect to our choice of dependent variable: abnormal returns to shareholders. The short-run abnormal equity price reaction to acquisition announcements is generally considered to be a reliable measure of the value consequences of a takeover activity (Kale et al., 2002). However, one of its associated weaknesses is the exclusion of unlisted firms, thus bringing selection bias into the sample. Further, this approach presupposes shareholders as the principle stakeholders of a firm, and the immediate response of the stock market as a true assessment of the strategic decision of the firm. It is likely that the intended objectives of a strategic decision are known only to the managers of the firm, and in such a case, market response can be erroneous. Also, the stock market cannot anticipate complications with post-acquisition integration, which can severely impact on acquisition performance. Given the complexity and risks associated with overseas acquisitions, longer-term performance is hinged upon how these firms manage the post-acquisition integration processes, particularly when targets are located in culturally distant markets.

Third, although there are few other systematic studies of the motivations for and value consequences of foreign acquisitions by firms from emerging economies, to compare our findings, some evidence exists related to the diverse paths of outward FDI across national contexts. For instance, Buckley et al. (2007) investigate the determinants of Chinese outward FDI and find it to be largely market-seeking, risk averse, and directed to those markets that are culturally close. Furthermore, such FDI over time appears to seek natural resources and not necessarily strategic assets (Accenture, 2006; *Economist*, 2007b). In a similar study, Filatotchev et al. (2007) report high-commitment FDI from Asian newly industrialized economies (NIEs) seeking target markets with strong economic, cultural, and historic links with the parent company. While these studies explore and divulge the underlying drivers of FDI by emerging economies, and the choice of target market locations, they are silent about the economic impact of FDI in terms of firm value creation. In contrast, with additional controls to disentangle the effects of market seeking and other such motives, we find that the value creation in overseas acquisitions by Indian firms is driven primarily by strategic asset-seeking considerations. Given the indicative evidence on different motivations of outward FDI across emerging economies, further comparative research is warranted encompassing multiple and diverse institutional settings.

In conclusion, our study adds to the growing stream of research on emerging-economy firms by empirically testing some of the recently proposed theoretical arguments related to their internationalization paths. While there is a large body of research examining international expansion of these firms through exports and joint ventures and strategic alliances, acquisitions as a mode of internationalization for emerging-economy firms are relatively understudied. Our study contributes some important insights to the internationalization literature, as well as complementing some of the

findings in the M&As literature. We hope future research will build upon these findings.

ACKNOWLEDGEMENTS

REFERENCES

Accenture. 2006. India goes global: How cross-border acquisitions are powering growth. http://www.accenture.com/Global/Research_and_Insights/Policy_And_Corporate_Affairs/IndiaGoesGlobal.htm. accessed 17 August 2008.

Almeida, P. 1996. Knowledge sourcing by foreign multinationals: Patent citation analysis in the US semiconductor industry. *Strategic Management Journal*, 17(2): 155–165.

Anand, J., & Delios, A. 2002. Absolute and relative resources as determinants of international acquisitions. *Strategic Management Journal*, 23(2): 119–134.

Andrade, G., Mitchell, M., & Stafford, E. 2001. New evidence and perspectives on mergers. *Journal of Economic Perspectives*, 15(2): 103–120.

Aulakh, P. S., Kotabe, M., & Teegen, H. 2000. Export strategies and performance of firms from emerging economies: Evidence from Brazil, Chile, and Mexico. *Academy of Management Journal*, 43(3): 342–361.

Barney, J. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17(1): 99–120.

Berry, H. 2006. Shareholder valuation of foreign investment and expansion. *Strategic Management Journal*, 27(12): 1123–1140.

Bharat Forge Ltd. 2005. Bombay stock exchange announcement. September 22, http://www.bseindia.com, accessed 17 August 2008.

Binder, 1998. The event study methodology since 1969. *Review of Quantitative Finance and Accounting*, 11(2): 111–137.

Brouthers, K. D., & Hennart, J. F. 2007. Boundaries of the firm: Insights from international entry mode research. *Journal of Management*, 33(3): 395–425.

Brown, S. J., & Warner, J. B. 1985. Using daily stock returns: The case of event studies. *Journal of Financial Economics*, 14(1): 3–31.

Buckley, P. J., & Casson, M. 1976. *The future of the multinational enterprise*. London: Macmillan.

Buckley, P. J., Clegg, L. J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. 2007. The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies*, 38(4): 499–518.

Business Line. 2007a. Mergers and acquisitions: India Inc. on the prowl. *Business Line*, 5 January.

Business Line. 2007b. Tata Corus deal: Should investors join the chorus?. *Business Line*, 4 February.

Cadila Healthcare Ltd. 2007. Bombay stock exchange announcement. April 19, http://www.bseindia.com, accessed 17 August 2008.

Capron, L., & Pistre, N. 2002. When do acquirers earn abnormal returns? *Strategic Management Journal*, 23(9): 781–794.

Capron, L., & Shen, J. C. 2007. Acquisitions of private versus public firms: Private information, target selection, and acquirer returns. *Strategic Management Journal*, 28(9): 891–911.

Capron, L., Dussauge, P., & Mitchell, W. 1998. Resource redeployment following horizontal acquisitions in Europe and North America, 1988–1992. *Strategic Management Journal*, 19(7): 631–661.

Chan, C. M., Isobe, T., & Makino, S. 2008. Which country matters? Institutional development and foreign affiliate performance. *Strategic Management Journal*, 29(11): 1179–1205.

Chang, S. J. 1995. International expansion strategy of Japanese firms: Capability building through sequential entry. *Academy of Management Journal*, 38(2): 383–407.

Chari, A., Ouimet, P. P., & Tesar, L. L. 2005. *Cross border mergers and acquisitions in emerging markets: The stock market valuation of corporate control*, Working Paper, University of Michigan.

Chen, S.-F. S. 2008. The motives for international acquisitions: Capability procurements, strategic considerations, and the role of ownership structures. *Journal of International Business Studies*, 39(3): 454–471.

Chen, X., Ender, P. B., Mitchell, M., & Wells, C. 2000. *Regression with Stata*. http://www.ats.ucla.edu/stat/stata/webbooks/reg/default.htm, accessed 17 August 2008.

Chittoor, R., Sarkar, M., Ray, S., & Aulakh, P. S. 2009. Third-world copycats to emerging multinationals: Institutional changes and organizational transformation in the Indian pharmaceutical industry. *Organization Science*, 20(1): 187–205.

Coff, R. W. 1999. How buyers cope with uncertainty when acquiring firms in knowledge-intensive industries: Caveat emptor. *Organization Science*, 10(2): 144–161.

Conn, R. L., Cosh, A., Guest, P. M., & Hughes, A. 2005. The impact on UK acquirers of domestic, cross-border, public and private acquisitions. *Journal of Business Finance & Accounting*, 32(5–6): 815–870.

Cording, M., Christmann, P., & King, D. R. 2008. Reducing causal ambiguity in acquisition integration: Intermediate goals as mediators between integration decisions and acquisition performance. *Academy of Management Journal*, 51(4): 744–767.

Cuervo-Cazurra, A., Maloney, M. M., & Manrakhan, S. 2007. Causes of the difficulties in internationalization. *Journal of International Business Studies*, 38(5): 709–725.

Datta, D. K., & Puia, G. 1995. Cross-border acquisitions: An examination of the influence of relatedness and cultural fit on shareholder value creation in US acquiring firms. *Management International Review*, 35(4): 337–359.

Dawar, N., & Frost, T. 1999. Competing with giants: Survival strategies for local companies in emerging markets. *Harvard Business Review*, 77(2): 119–132.

Dewenter, K. L. 1995. Does the market react differently to domestic and foreign takeover announcements? Evidence from the US chemical and retail industries. *Journal of Financial Economics*, 37(3): 421–441.

Doukas, J., & Travlos, N. G. 1988. The effect of corporate multinationalism on shareholders' wealth: Evidence from international acquisitions. *Journal of Finance*, 43(5): 1161–1175.

Doz, Y., Santos, J., & Williamson, P. 2001. *From global to metanational: How companies win in the knowledge economy*. Boston, MA: Harvard Business School Press.

Dunning, J. H. 1988. The eclectic paradigm of international production: A restatement and some possible extensions. *Journal of International Business Studies*, 19(1): 1–31.

Economist. 2007a. India's acquisitive companies: Marauding maharajahs. 31 March, pp. 71–72.

Economist. 2007b. Trojan dragons: Chinese firms are taking a new approach to foreign acquisitions. 1 November, p. 80.

Ethiraj, S. K., & Levinthal, D. 2004. Bounded rationality and the search for organizational architecture: An evolutionary perspective on the design of organizations and their evolvability. *Administrative Science Quarterly*, 49(3): 404–437.

Ethiraj, S. K., Kale, P., Krishnan, M. S., & Singh, J. V. 2005. Where do capabilities come from and how do they matter? A study in the software services industry. *Strategic Management Journal*, 26(1): 25–45.

Eun, C. S., Kolodny, R., & Scheraga, C. 1996. Cross-border acquisitions and shareholder wealth: Tests of the synergy and internalization hypotheses. *Journal of Banking and Finance*, 20(9): 1559–1582.

Filatotchev, I., Strange, R., Piesse, J., & Lien, Y.-C. 2007. FDI by firms from newly industrialised economies in emerging markets: Corporate governance, entry mode and location. *Journal of International Business Studies*, 38(4): 556–572.

Financial Times. 2002. Tea producer seeks a stronger brew. 5 December, p. 13.

Finkelstein, S., & Haleblian, J. 2003. Understanding acquisition performance: The role of transfer effects. *Organization Science*, 13(1): 36–47.

Francis, B. B., Hasan, I., & Sun, X. 2008. Financial market integration and the value of global diversification: Evidence for US acquirers in cross-border mergers and acquisitions. *Journal of Banking and Finance*, 32(8): 1522–1540.

Ghemawat, P. 2001. Distance still matters: The hard reality of global expansion. *Harvard Business Review*, 79(8): 137–147.

Greenwood, R., & Hinings, C. R. 1996. Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review*, 21(4): 1022–1054.

Guillen, M. F. 2002. Structural inertia, imitation, and foreign expansion: South Korean firms and business groups in China, 1987–95. *Academy of Management Journal*, 45(3): 509–525.

Gupta, A. K., & Govindarajan, V. 2000. Knowledge flows within multinational corporations. *Strategic Management Journal*, 21(4): 473–496.

Haleblian, J., & Finkelstein, S. 1999. The influence of organizational acquisition experience on acquisition performance: A behavioral learning perspective. *Administrative Science Quarterly*, 44(1): 29–31.

Haleblian, J., Kim, J., & Rajagopalan, N. 2006. The influence of acquisition experience and performance on acquisition behavior: Evidence from the US commercial banking industry. *Academy of Management Journal*, 49(2): 357–370.

Harrison, J. S., Hitt, M. A., Hoskisson, R. E., & Ireland, R. D. 2001. Resource complementarity in business combinations: Extending the logic to organizational alliances. *Journal of Management*, 27(6): 679–690.

Heckman, J. 1979. Sample selection bias as a specification error. *Econometrica*, 47(1): 153–161.

Hennart, J. F., & Reddy, S. 1997. The choice between mergers/acquisitions and joint ventures: The case of Japanese investors in the United States. *Strategic Management Journal*, 18(1): 1–12.

Heritage Foundation. 2009. *2009 index of economic freedom.* Washington DC: Heritage Foundation.

Hitt, M. A., Hoskisson, R. E., & Kim, H. 1997. International diversification: Effects on innovation and firm performance in product-diversified firms. *Academy of Management Journal*, 40(4): 767–798.

Hitt, M. A., Li, H., & Worthington, W. J. IV. 2005. Emerging markets as learning laboratories: Learning behaviors of local firms and foreign entrants in different institutional contexts. *Management and Organization Review*, 1(3): 353–380.

Hitt, M. A., Dacin, M. T., Levitas, E., Arregle, J. L., & Borza, A. 2000. Partner selection in emerging and developed market contexts: Resource-based and organizational learning perspectives. *Academy of Management Journal*, 43(3): 449–467.

Hutzschenreuter, T., Pedersen, T., & Volberda, H. W. 2007. The role of path dependency and managerial intentionality: A perspective on international business research. *Journal of International Business Studies*, 38(7): 1055–1068.

Hymer, S. 1976. *The international operations of national firms.* Cambridge, MA: MIT Press.

Johanson, J., & Vahlne, J. E. 1977. The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments. *Journal of International Business Studies*, 8(1): 23–32.

Kale, P., Dyer, J. H., & Singh, H. 2002. Alliance capability, stock market response, and long-term alliance success: The role of the alliance function. *Strategic Management Journal*, 23(8): 747–767.

Karim, S., & Mitchell, W. 2000. Path-dependent and path-breaking change: Reconfiguring business resources following acquisitions in the US medical sector, 1978–1995. *Strategic Management Journal*, 21(10–11): 1061–1081.

Katila, R., & Ahuja, G. 2002. Something old, something new: A longitudinal study of search behavior and new product development. *Academy of Management Journal*, 45(6): 1183–1194.

King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. 2004. Meta-analyses of post-acquisition performance: Indications of unidentified moderators. *Strategic Management Journal*, 25(2): 187–200.

Kriauciunas, A., & Kale, P. 2006. The impact of socialist imprinting and search on resource change: A study of firms in Lithuania. *Strategic Management Journal*, 27(7): 659–679.

Lall, S. 1983. *The new multinationals: The spread of third world enterprises.* New York: Wiley.

Lee, T. J., & Caves, R. E. 1998. Uncertain outcomes of foreign investment: Determinants of the dispersion of profits after large acquisitions. *Journal of International Business Studies*, 29(3): 563–581.

Luo, Y., & Tung, R. L. 2007. International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies*, 38(4): 481–498.

MacKinlay, A. C. 1997. Event studies in economics and finance. *Journal of Economic Literature*, 35(1): 13–39.

Makino, S., Isobe, T., & Chan, C. M. 2004. Does country matter? *Strategic Management Journal*, 25(10): 1027–1043.

Makino, S., Lau, C. M., & Yeh, R. S. 2002. Asset-exploitation versus asset-seeking: Implications for location choice of foreign direct investment from newly industrialized economies. *Journal of International Business Studies*, 33(3): 403–422.

MAPE. 2006. *India Inc. goes abroad.* http://www.mapegroup.com. Accessed 18 February 2007.

Markides, C. C., & Ittner, C. D. 1994. Shareholder benefits from corporate international diversification: Evidence from US international acquisitions. *Journal of International Business Studies*, 25(2): 343–366.

Mathews, J. A. 2006. Dragon multinationals: New players in 21st century globalization. *Asia Pacific Journal of Management*, 23(1): 5–27.

McNamara, G. M., Haleblian, J. M., & Dykes, B. J. 2008. The performance implications of participating in an acquisition wave: Early mover advantages, bandwagon effects, and the moderating influence of industry characteristics and acquirer tactics. *Academy of Management Journal*, 51(1): 113–130.

McWilliams, A., & Siegel, D. 1997. Event studies in management research: Theoretical and empirical issues. *Academy of Management Journal*, 40(3): 626–657.

Merchant, H., & Schendel, D. 2000. How do international joint ventures create shareholder value? *Strategic Management Journal*, 21(7): 723–737.

Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. 2009. Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, 30(1): 61–80.

Miller, S. R., Li, D., Eden, L., & Hitt, M. A. 2008. Insider trading and the valuation of international strategic alliances in emerging stock markets. *Journal of International Business Studies*, 39(1): 102–117.

Moeller, S. B., & Schlingemann, F. P. 2005. Global diversification and bidder gains: A comparison between cross-border and domestic acquisitions. *Journal of Banking and Finance*, 29(3): 533–564.

Morck, R., & Yeung, B. 1991. Why investors value multi-nationality. *Journal of Business*, 64(2): 165–187.

Nelson, R. R. 2005. *Technology, institutions and economic growth*. Cambridge, MA: Harvard University Press.

Newman, K. L. 2000. Organizational transformation during institutional upheaval. *Academy of Management Review*, 25(3): 602–619.

OECD. 2006. *Emerging multinationals: Who are they? What do they do? What is at stake?* Paris: OECD.

Outlook. 2008. Turning a new leaf. 5 April.

Penrose, E. T. 1959. *The theory of the growth of the firm*. New York: Wiley.

Reuer, J. J., Shenkar, O., & Ragozzino, R. 2004. Mitigating risk in international mergers and acquisitions: The role of contingent payouts. *Journal of International Business Studies*, 35(1): 19–32.

Rosenkopf, L., & Nerkar, A. 2001. Beyond local search: Boundary-spanning, exploration, and impact in the optical disk industry. *Strategic Management Journal*, 22(4): 287–306.

Rossi, S., & Volpin, P. F. 2004. Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics*, 74(2): 277–304.

Salinger, M. 1992. Standard errors in event studies. *Journal of Financial and Quantitative Analysis*, 27(1): 39–53.

Sapienza, H. J., Autio, E., George, G., & Zahra, S. A. 2006. A capabilities perspective on the effects of early internationalization on firm survival and growth. *Academy of Management Review*, 31(4): 914–933.

Schoenberg, R. 2006. Measuring the performance of corporate acquisitions: An empirical comparison of alternative metrics. *British Journal of Management*, 17(4): 361–370.

Scott, W. R. 1995. *Institutions and organizations*. Thousand Oaks, CA: Sage.

Seth, A., Song, K. P., & Pettit, R. R. 2002. Value creation and destruction in cross-border acquisitions: An empirical analysis of foreign acquisitions of US firms. *Strategic Management Journal*, 23(10): 921–940.

Shan, W., & Song, J. 1997. Foreign direct investment and the sourcing of technological advantage: Evidence from the biotechnology industry. *Journal of International Business Studies*, 28(2): 267–284.

Shaver, J. M. 1998. Accounting for endogeneity when assessing strategy performance: Does entry mode choice affect FDI survival? *Management Science*, 44(4): 571–585.

Shimizu, K., Hitt, M. A., Vaidyanath, D., & Pisano, V. 2004. Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommendations for the future. *Journal of International Management*, 10(3): 307–353.

Sintex Industries. 2007. Bombay stock exchange announcement. June 1, http://www.bseindia.com. accessed 24 August 2008.

Sirmon, D. G., Hitt, M. A., & Ireland, R. D. 2007. Managing firm resources in dynamic environments to create value: Looking inside the black box. *Academy of Management Review*, 32(1): 273–292.

Srivastava, R. K., Shervani, T. A., & Fahey, L. 1998. Market-based assets and shareholder value: A framework for analysis. *Journal of Marketing*, 62(1): 2–18.

Tata Group. 2000. *The master blender*. http://www.tata.com. accessed 15 January 2009.

Teece, D. J., Pisano, G., & Shuen, A. M. Y. 1997. Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7): 509–533.

Tsang, E. W. K., & Yip, P. S. L. 2007. Economic distance and the survival of foreign direct investments. *Academy of Management Journal*, 50(5): 1156–1168.

Tuch, C., & O'Sullivan, N. 2007. The impact of acquisitions on firm performance: A review of the evidence. *International Journal of Management Reviews*, 9(2): 141–170.

Uhlenbruck, K., Meyer, K. E., & Hitt, M. A. 2003. Organizational transformation in transition economies: Resource-based and organizational learning perspectives. *Journal of Management Studies*, 40(2): 257–282.

Uhlenbruck, K., Hitt, M. A., & Semadeni, M. 2006. Market value effects of acquisitions involving Internet firms: A resource-based analysis. *Strategic Management Journal*, 27(10): 899–913.

UNCTAD. 2006. *World investment report: FDI from developing and transition economies: Implications for development*. New York/Geneva: United Nations.

Vanhaverbeke, W., Duysters, G., & Noorderhaven, N. 2002. External technology sourcing through alliances or acquisitions: An analysis of the application-specific integrated circuits industry. *Organization Science*, 13(6): 714–733.

Vermeulen, F., & Barkema, H. 2001. Learning through acquisitions. *Academy of Management Journal*, 44(3): 457–476.

Vernon, R. 1979. The product cycle hypothesis in a new international environment. *Oxford Bulletin of Economics and Statistics*, 41(4): 255–267.

Wells, L. T. 1983. *Third world multinationals: The rise of foreign investment from developing countries*. Cambridge, MA: MIT Press.

Wernerfelt, B. 1984. A resource-based view of the firm. *Strategic Management Journal*, 5(2): 171–180.

Yiu, D. W., Lau, C. M., & Bruton, G. D. 2007. International venturing by emerging economy firms: The effects of firm capabilities, home country networks, and corporate entrepreneurship. *Journal of International Business Studies*, 38(4): 519–540.

Zaheer, S. 1995. Overcoming the liability of foreignness. *Academy of Management Journal*, 38(2): 341–363.

Zhou, L., Wu, W., & Luo, X. 2007. Internationalization and the performance of born-global SMEs: The mediating role of social networks. *Journal of International Business Studies*, 38(4): 673–690.

APPENDIX

Event Study Methodology

The impact of an economic event such as an acquisition can be assessed by observing the price change in the acquirer's security over a relatively short period through a technique known as event study methodology (Haleblian et al., 2006; MacKinlay, 1997). The underlying assumption is that the market is efficient, and therefore, all information related to the firm and its expected future performance is incorporated in its security or stock price (Binder, 1998). The methodology involves three primary steps (Brown & Warner, 1985; McWilliams and Siegel, 1997):

(1) Identify the event and define the event window and the estimation period.
(2) Determine abnormal returns.

(3) Cumulate the abnormal returns over the event window and test for their significance.

According to McWilliams and Siegel (1997) event study makes three fundamental assumptions:

(1) The market is efficient.
(2) The events are unanticipated.
(3) There are no other, confounding events.

Given that the first assumption may not be totally tenable in emerging economies such as India, the effect of inefficiency can be minimized by selecting a fairly long event window. However, too long an event window can also be problematic in terms of reducing the statistical power of the test and exacerbating the difficulty of controlling for confounding events (McWilliams & Siegel, 1997). Also, long-event windows increase the likelihood of contemporaneous and intertemporal correlations of residuals resulting in significant underestimates of standard errors (Salinger, 1992). In the past, studies have employed various lengths of event window, ranging from as low as 3 days (announcement day ± 1 day) to as high as 181 days (announcement day ± 90 days) (McWilliams & Siegel, 1997). In this study we employ a moderate event window of 11 days (announcement day ± 5 days), and a preceding estimation period of clear 240 days which excludes the event window so as to not contaminate the normal performance model parameter estimates (MacKinlay, 1997).

Appraisal of the event's impact requires a measure of the abnormal return (MacKinlay, 1997), calculated as the difference between the stock market return associated with a given event involving a firm (i.e., actual return) and the firm's historical return (i.e., normal returns) (Merchant & Schendel, 2000). Here, the normal return is defined as that expected if the event did not take place, and is measured by the return obtained with the market model (Capron & Pistre, 2002). Following the procedure outlined by Brown and Warner (1985) and others, we calculate the daily abnormal returns (AR_{it}) to the shareholders of acquiring firm i for day t by controlling for both the market return and the firm-specific return as per the model below,

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \qquad (1)$$

where R_{it} is the observed firm i's return and R_{it} is the return on a market index, both being for day t. In the above equation the term within the brackets

is the expected share price normal return, and is calculated by regressing daily share price return on a daily market portfolio (index) return over a predetermined estimation period preceding the event (e.g., 250–50 days prior to the event). The corresponding constant and the coefficient obtained from the above regression are α_i and β_i, respectively.

We used SENSEX, the benchmark index of the Bombay Stock Exchange, to assess the fluctuation in daily share price of listed and publicly traded acquirer firms. As a cross-check, we used other indices, such as NIFTY, BSE-500, and S&P CNX-500, as alternate benchmarks to assess abnormal fluctuation in the share prices of acquiring firms. The values of expected normal returns obtained across the indices correlated with those obtained using SENSEX. Once the daily abnormal returns around the event have been determined, it is customary to cumulate the abnormal return obtained over the "event window". This aggregation is undertaken to account for the capital markets' reaction to announcements that may have been made after trading hours (Merchant & Schendel, 2000), and to account for any information leakage prior to the official announcement of the event. We cumulate the abnormal return over the 11-day window. Finally, to assess whether the event under observation has a significant impact on values of the firms, a suitable test statistic (in our case the average of CAR over the 11-day window for all events) is assessed for statistical significance (McWilliams & Siegel, 1997).

ABOUT THE AUTHORS
Sathyajit R Gubbi (satgubi@gmail.com) is a PhD candidate in Strategic Management at the Indian Institute of Management Calcutta, and a visiting Fulbright Scholar at the Fox School of Business and Management, Temple University. He obtained his bachelor's degree in chemical engineering from the Indian Institute of Technology, Bombay. His research focuses on cross-border mergers and acquisitions, and emerging-economy multinationals. He has worked with several multinational companies around the globe, offering technical, management, and consulting services.

Preet S Aulakh (paulakh@schulich.yorku.ca) is a professor of Strategy and Pierre Lassonde Chair in International Business at the Schulich School of Business, York University. He obtained his PhD from the University of Texas at Austin. His research

focuses on cross-border strategic alliances, emerging-economy multinationals, and technology licensing. His research has appeared in journals, such as the *Academy of Management Journal, Organization Science, Journal of International Business Studies, Journal of Management Studies*, and *Journal of Marketing*, among others.

Sougata Ray (ray.sougata@gmail.com) is a professor of Strategy and International Business at the Indian Institute of Management Calcutta, and is currently on sabbatical as the Professor-in-Residence at Infosys Technologies Limited to spearhead the innovation initiatives and incubate the innovation practice in the company. He received his PhD (Fellow) in Management from the Indian Institute of Management, Ahmedabad. He specializes in the strategic behavior of emerging-economy firms, and has been researching a portfolio of interlinked topics, such as firmsf responses to economic reforms, internationalization strategy of emerging multinationals, strategic transformation, innovations and entrepreneurship of emerging-economy firms, and business groups and state-owned enterprises.

M B Sarkar (mbsarkar@temple.edu) is an associate professor of Strategy and Stauffer Senior Research Fellow at the Fox School of Business, Temple University. He received his PhD from Michigan State University. His research interests are in strategic issues at the intersections of innovation, technology management, entrepreneurship, and emerging economies. His research has been published/forthcoming in journals, such as the *Academy of Management Journal, Journal of International Business Studies, Management Science, Organization Science, Strategic Management Journal, Strategic Entrepreneurship Journal*, and *Journal of the Academy of Marketing Science* among others.

Raveendra Chittoor (raveendra_chittoor@isb.edu) is an assistant professor of Strategy at the Indian School of Business, Hyderabad, India. His research focuses primarily on internationalization of firms from emerging economies and business groups. Ravee is a management graduate from the Indian Institute of Management, Ahmedabad and a doctorate from the Indian Institute of Management, Calcutta.