

**IMPACT OF CROSS-BORDER ACQUISITIONS ON WEALTH
CREATION AND FINANCIAL PERFORMANCE: EMPIRICAL
EVIDENCE FROM INDIA AND CHINA**

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Financial Performance: Empirical Evidence from India and China**

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CERTIFICATE

The thesis titled, “**Impact of Cross-border Acquisitions on Wealth Creation and Financial Performance: Empirical Evidence from India and China**”, being submitted by **Ms. Samta Jain** to the Indian Institute of Technology Delhi for the award of the degree of **Doctor of Philosophy** is a record of *bona fide* research work carried out by her. She has worked under our guidance and supervision, and has fulfilled all the requirements for the submission of the thesis, which has attained the standard required for a Ph.D. degree of this institute. The results presented in this thesis have not been submitted elsewhere for the award of any degree or diploma.

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ABSTRACT

Cross-border acquisitions (CBAs) have emerged as the major internationalisation strategy for emerging market firms (EMFs). Increasing globalization, along with rapid advancement in technology, has propelled these firms to adopt an inorganic way of expansion *via* CBAs to build and strengthen their competitive advantage at the global level.

Traditionally, the internationalisation of firms (primarily from developed markets) is motivated by asset-exploitation perspective (Caves, 1971; Hymer, 1976). However, the internationalisation path of emerging market firms differs substantially from that of developed market firms (Boateng *et al.*, 2008). These EMFs generally lack monopolistic advantages (firm-specific advantages) enjoyed by their counterparts in developed economies (Buckley *et al.*, 2016). Being so, CBAs by developed market firms (DMFs) are *pushed* by their innate firm-specific advantages whereas those of EMFs are *pulled* by the existing capabilities of foreign firms; the internationalisation of EMFs is motivated by asset-augmentation instead of asset-exploitation perspective. Such strategic actions involving huge outflow of funds would have a financial impact on the acquiring companies, the present study assesses this aspect.

Cross-border acquisitions undertaken by Indian and Chinese companies during the time period 2001-2017 constitute the relevant sample of the study; Indian companies listed on NIFTY 500 and Chinese companies on SSE 380 have been chosen for the study. For analysis, the study has used multiple research techniques, namely, event study methodology to assess the wealth effects of acquisition announcement; ordinary least squares (OLS) method of regression to determine cross-sectional variation in abnormal returns; and an experimental design, that is, ‘pre-and-post design’ to assess the change in long-term financial and operating performance. The change in performance has been evaluated using the average performance for three years before

the acquisition as ‘benchmark’. In addition, a questionnaire-based survey has been conducted among middle and top-level executives of organisations involved in cross-border acquisitions.

Indian as well as Chinese markets have responded favourably to the announcement of CBAs. Equally important to note is that the abnormal returns have emerged out to be positive not only on days subsequent to the event but also prior to it. During the pre-event window, the effect is, by and large, only for two days prior to the event, suggesting that emerging economies are moving from semi-strong form to efficient form of market efficiency. Evidently, Chinese markets are less efficient *vis-à-vis* Indian markets as the impact of acquisition announcement is more pronounced during the post-event period, in the case of Chinese companies.

The performance of Indian acquirers has been noted to be affected by the mode of payment (cash/non-cash), age of the acquiring firm, development status of the target country (developed/emerging), cultural distance and institutional distance. However, only the size of the acquiring firm affects the abnormal returns of the Chinese acquirers such that “*smaller is the acquiring firm, higher will be its abnormal returns.*”

The analysis of secondary data indicates that cross-border acquisitions have caused a substantial decline in the profit margins (profitability) of Indian firms; the profitability of Chinese firms has remained unaffected. The survey results (based on primary data) indicate that the sample companies have been successful in accomplishing strategic, financial and operational objectives. However, performance on human resource aspects has been unsatisfactory primarily attributable to inadequate emphasis on cultural aspects at the time of due-diligence.

The present study notes that international expansion of emerging market firms is motivated by their desire to obtain and/or augment strategic assets, advanced technology, and knowledge-

based resources and capabilities (strategic motives) rather than achieving operational synergies anticipated from economies of scale (financial motives).

The aforesaid observation has been empirically corroborated by the fact that CBAs as a way of international expansion for EMFs have, by and large, not brought about the desired level of improvement in their financial performance. In fact, the profitability of Indian firms has deteriorated significantly in the post-merger period whereas the Chinese firms have only been able to sustain their profit margins at pre-merger levels (providing some solace). However, keeping in view the wealth maximisation objective of a corporate firm, it is suggested that EMFs should explore more opportunities (joint ventures, Greenfield investments, etc.) in international markets to expand their market power and diversify their operations to reap the benefits of internationalisation. But, at the same time, they should be conscious of impending integration challenges and thus, emphasise on improving post-acquisition integration practices with more focus on people and cultural aspects.

सार

क्रॉस-बॉर्डर एक्वीजीशनस (CBAs) उभरते बाज़ारों की फर्मों (EMFs) के लिए प्रमुख अंतर्राष्ट्रीयकरण रणनीति के रूप में उभरें हैं। प्रौद्योगिकी के क्षेत्र में तेजी से उन्नति के साथ-साथ बढ़ते हुए वैश्वीकरण ने इन कंपनियों को वैश्विक स्तर पर अपने कॉम्पिटिटिव एडवांटेजस के निर्माण और मजबूत करने के लिए CBAs के माध्यम से विस्तार का एक इनऑर्गेनिक तरीका अपनाने के लिए प्रेरित किया है।

परंपरागत रूप से, फर्मों का अंतर्राष्ट्रीयकरण (मुख्य रूप से विकसित बाज़ारों से) एसेट-एक्सप्लोइटेशन के नज़रिये से प्रेरित है (केव्स, 1971; हाइमर, 1976)। जबकि उभरते बाज़ारों की फर्मों का अंतर्राष्ट्रीयकरण मार्ग विकसित बाज़ारों की फर्मों से काफी भिन्न है (बोटिंग एट अल, 2008)। इन EMFs में आम तौर पर विकसित एकाॅनॉमिस द्वारा प्राप्त मोनोपोलिस्टिक एडवांटेजस (फर्म-स्पेसिफिक एडवांटेजस) का अभाव है (बकले एट अल, 2016)। ऐसा होने के कारण, विकसित बाज़ारों की फर्मों (DMFs) द्वारा किये जाने वाले CBAs उनके अन्तर्निहित फर्म-स्पेसिफिक एडवांटेजस से तय होते हैं। जबकि EMFs द्वारा किये जाने वाले CBAs को विदेशी कंपनियों की मौजूदा क्षमता निर्धारित करती हैं। इसलिए EMFs का अंतर्राष्ट्रीयकरण एसेट-एक्सप्लोइटेशन पर्सपेक्टिव के बजाय एसेट- ऑगमेंटेशन से प्रेरित है। इस तरह के रणनीतिक कार्यों में धन के विशाल ऑउटफ्लो से जुड़ी कंपनियों पर बहुत अधिक वित्तीय प्रभाव पड़ता है, वर्तमान अध्ययन इस पहलू का आकलन करता है।

इस अध्ययन का सैंपल 2001-2017 की समयावधि के दौरान भारतीय और चीनी कंपनियों द्वारा किए गए CBAs है। NIFTY 500 में सूचीबद्ध भारतीय कंपनियों और SSE 380 पर चीनी कंपनियों को अध्ययन के लिए चुना गया है। विश्लेषण के लिए, अध्ययन ने कई रिसर्च तकनीकों का इस्तेमाल किया है। CBAs की घोषणा के वेल्थ इफेक्ट्स का आकलन करने के लिए इवेंट स्टडी मेथोडॉलजी का उपयोग किया है। एब्नार्मल रिटर्न्स में क्रॉस-सेक्शनल भिन्नता निर्धारित करने के लिए आर्डिनरी लीस्ट स्क्वेरस (OLS)

विधि का उपयोग किया गया है। दीर्घकालिक वित्तीय और ऑपरेशनल प्रदर्शन में बदलाव का आकलन करने के लिए एक्सपेरिमेंटल डिज़ाइन (प्री-एंड-पोस्ट डिज़ाइन) का प्रयोग किया गया है, जिसमें एक्वीजीशन से तीन वर्ष पहले के औसत प्रदर्शन को 'बेंचमार्क' के रूप में उपयोग करके प्रदर्शन में परिवर्तन का मूल्यांकन किया गया है। इसके अलावा, CBAs में शामिल संगठनों के मध्यम और शीर्ष स्तर के अधिकारियों के बीच एक प्रश्नावली-आधारित सर्वेक्षण आयोजित किया गया है।

भारतीय और चीनी बाज़ारों ने CBAs की घोषणा के अनुकूल उत्तर दिए हैं। एब्नार्मल रिटर्न्स न केवल इवेंट के बाद के दिनों में बल्कि इसके पहले के दिनों में भी सकारात्मक रूप से उभरें हैं। प्री-इवेंट विंडो के दौरान, इवेंट से केवल दो दिन पहले ही एब्नार्मल रिटर्न्स का प्रभाव है, यह दर्शाता है कि उभरती एकॉनॉमिस के बाज़ारों की एफिशिएंसी सेमि-एफ़िसिएसंट फॉर्म से एफ़िसिएंट फॉर्म की ओर आगे बढ़ रही है। जाहिर है, चीनी बाज़ार भारतीय बाज़ार की अपेक्षा कम एफ़िसिएंट हैं क्योंकि चीनी कंपनियों के मामले में, पोस्ट-मर्जर पीरियड के दौरान एक्वीजीशन की घोषणा का प्रभाव अधिक स्पष्ट है।

भारतीय एक्वायररस के प्रदर्शन को मेथड ऑफ़ पेमेंट (नकद / गैर-नकद), एक्वीजीशन करने वाली फर्म की आयु, टारगेट देश की विकास स्थिति (विकसित / उभरती हुई), कल्चरल डिस्टेंस और इंस्टीट्यूशनल डिस्टेंस से प्रभावित होने का उल्लेख किया गया है। परन्तु, चीनी एक्वायररस के एब्नार्मल रिटर्न्स को केवल एक्वीजीशन करने वाली फर्म का साइज प्रभावित करता है, जैसे कि *"जितनी फर्म अधिक छोटी होगी, उतना ज़्यादा उसका प्रदर्शन होगा"*।

सेकेंडरी डाटा के विश्लेषण से संकेत मिलता है कि CBAs से भारतीय कंपनियों के प्रॉफिट-मार्जिन्स (प्रोफ़िटेबिलिटी) में काफी गिरावट आई है; चीनी कंपनियों की प्रोफ़िटेबिलिटी अप्रभावित रही है। सर्वेक्षण के परिणाम (प्राइमरी डाटा के आधार पर) बताते हैं कि सैंपल कंपनियां रणनीतिक, वित्तीय और ऑपरेशनल

उद्देश्यों को पूरा करने में सफल रही हैं। इसके आलावा, मुख्य रूप से कल्चरल आस्पेक्ट्स पर अपर्याप्त जोर देने के कारण मानव संसाधन पहलुओं पर प्रदर्शन असंतोषजनक रहा है।

वर्तमान अध्ययन बताता है कि उभरते बाजारों की फर्मों का अंतर्राष्ट्रीय विस्तार उनकी रणनीतिक एसेट्स, उन्नत प्रौद्योगिकी, ज्ञान-आधारित संसाधनों और क्षमताओं (रणनीतिक उद्देश्यों) को प्राप्त करने और / या बढ़ाने की इच्छा से प्रेरित है, बजाय की वित्तीय उद्देश्यों द्वारा।

पूर्वोक्त अवलोकन का अनुभव इस तथ्य से हुआ है कि EMFs के लिए CBAs (अंतरराष्ट्रीय विस्तार के तरीके में) उनके वित्तीय प्रदर्शन में वांछित स्तर पर सुधार नहीं ला पायें हैं। वास्तव में, पोस्ट-मर्जर पीरियड में भारतीय फर्मों की प्रोफिटेबिलिटी में काफी गिरावट आई है, जबकि चीनी कंपनियां केवल प्री-मर्जर स्तर पर अपने प्रॉफिट-मार्जिन्स को बनाए रखने में सक्षम हैं। हालांकि, एक कॉर्पोरेट फर्म के वेल्थ-मक्सिमाइजेशन उद्देश्य को ध्यान में रखते हुए, यह सुझाव दिया गया है कि EMFs को अपनी बाजार की शक्ति का विस्तार करने और अपने कार्यों को लाभदायक बनाने के लिए अंतर्राष्ट्रीय बाजारों में दूसरी विधियों की तलाश करनी चाहिए, जैसे- जॉइंट वेंचर्स, ग्रीनफील्ड इन्वेस्टमेंट्स आदि। इसके अलावा उन्हें उपस्थित होने वाली इंटीग्रेशन की चुनौतियों के प्रति सचेत होना चाहिए। पोस्ट-एक्वीजीशन इंटीग्रेशन प्रैक्टिसेज में खास तौर पर पीपल एंड कल्चरल आस्पेक्ट्स पर अधिक ध्यान देने की आवश्यकता है।

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ABBREVIATIONS

AAR	Average Abnormal Returns
AIP	Acquisition and Integration Process
ATR	Acid Test Ratio
CAR	Cumulative Abnormal Returns
CBAs	Cross-border Acquisitions
CAAR	Cumulative Average Abnormal Returns
CATR	Current Assets Turnover Ratio
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CR	Current Ratio
CSO	Chief Strategy Officer
COO	Chief Operating Officer
DER	Debt-equity Ratio
DM	Developed Market
DMF	Developed Market Firm
EBITDA	Earnings before Interest Tax Depreciation and Amortisation
EBITDAM	EBITDA Margin
EE	Emerging Economies
EM	Emerging Market
EMF	Emerging Market Firm
ESM	Event Study Methodology

EVA	Economic Value Added
FATR	Fixed Assets Turnover Ratio
FDI	Foreign Direct Investments
GFC	Global Financial Crisis
GPM	Gross Profit Margin
M&A	Mergers and Acquisitions
MNEs	Multinational Enterprises
NPM	Net Profit Margin
NPV	Net Present Value
NSE	National Stock Exchange
OLS	Ordinary Least Squares
OPM	Operating Profit Margin
OR	Ordinary Resolution
PAI	Post-acquisition Integration
ROA	Return on Assets
ROCE	Return on Capital Employed
SR	Special Resolution
SSE	Shanghai Stock Exchange