Research Proposal

A Phase Wise Study of Cross Border Acquisitions by Firms in Emerging Markets - **Evidence from India**

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Introduction

Emerging market firms have become strong contenders in the Cross Border Acquisition Market. Initially they were targets for acquisitions by developed country acquirers. In the last decade, they have turned acquirers, expanding their presence in the global scenario by acquiring firms from both emerging and developed markets. “The hunters are fast becoming the hunted in the race for cross-border transactions between emerging and developed markets” (KPMG Emerging markets international acquisition tracker)

AT Kearney researchers (2008) found that there has been a fundamental shift in the Merger and Acquisition world since 2002, with companies from developing countries such as India, China, Malaysia, the United Arab Emirates, Russia and South Africa snapping up established companies at an astonishing rate, with India spearheading the acquisition market. Thomson Reuters (2011) in their investment banking review for 2010 announced that emerging markets accounted for 33% of the USD 2.4 trillion in cross border acquisitions for the year.

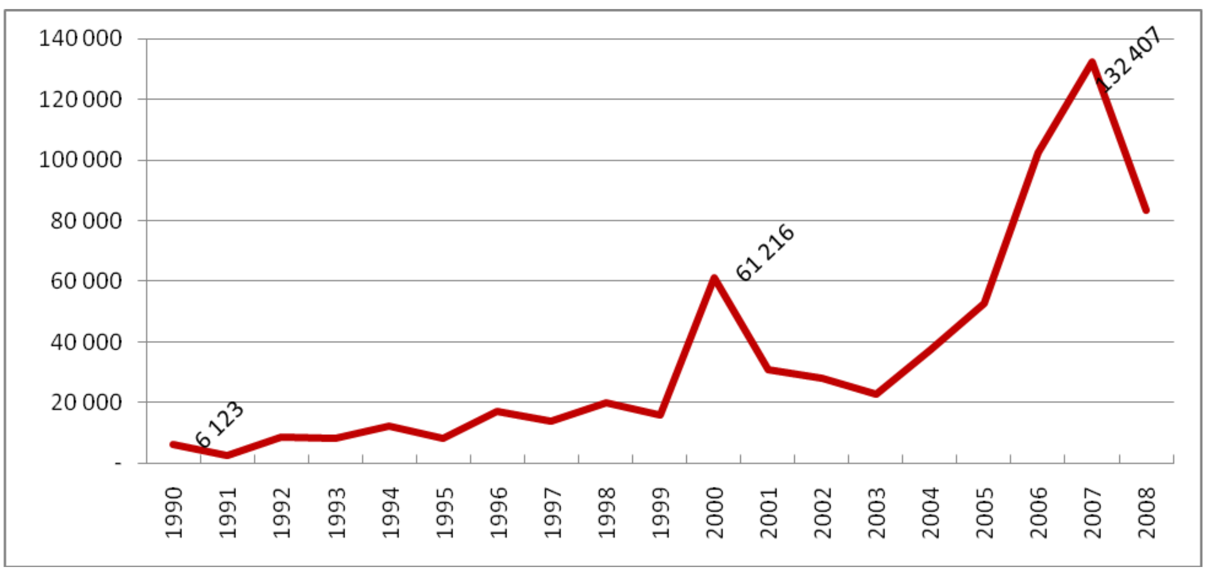

Figure 1: Cross Border Acquisitions by emerging Market Firms in US Dollars (Computed from UNCTAD cross-border M&A database WIR2009)

Cross border acquisitions by Indian companies increased from USD 23 million in 1990 to USD 29 billion in 2007. (UNCTAD cross-border M&A database). The financial crisis in 2008 led to a decline in volume in 2008 and 2009. As per a report by E&Y (2011); cross border acquisitions by Indian firms recovered in 2010, at USD 32 billion, above the earlier highest value of USD 29 billion in 2007.

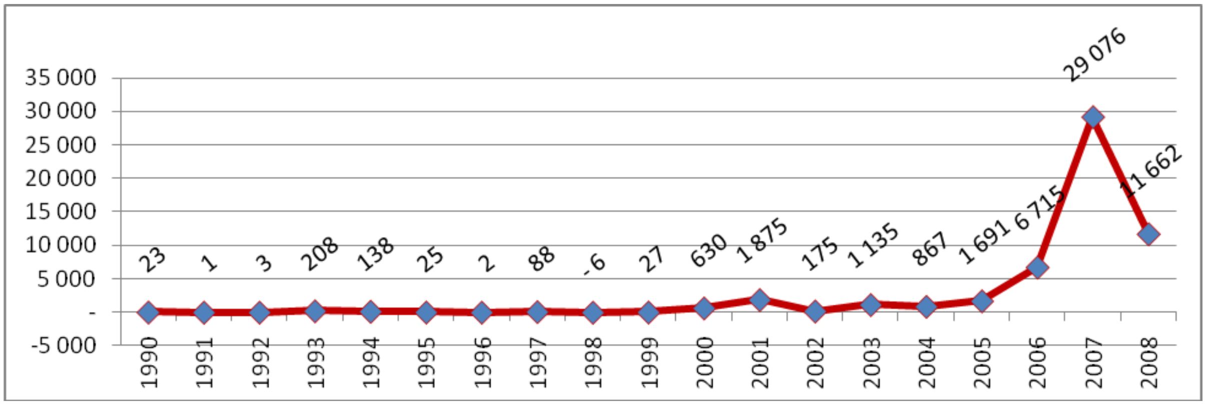

Figure 2: Outbound acquisitions by Indian Companies in Million US Dollars (computed from UNCTAD WIR 2009)

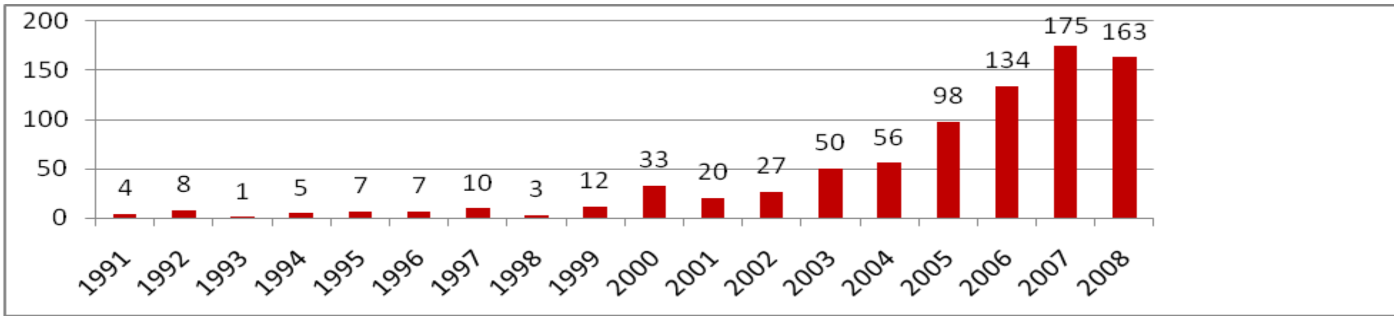

Figure 3: Number of Acquisitions by Indian Companies (Computed from UNCTAD WIR 2009)

There are several reasons that prompt us to undertake a study on cross border acquisitions by Indian Firms. Firstly India has been at the forefront of acquisitions from the emerging markets (AT Kearney researchers, 2008). India has gone through deregulations in the last two decades both in terms of allowing inward and outward investments Gopinathan S (2007). Indian companies have certain peculiarities in terms of ownership concentration by Promoters and financial institutions which make acquisition by Indian firms an interesting subject of study. (Barai, P and Mohanty, P, 2010). The deal structure of acquisitions by Indian Firms is unusual as compared to developed country acquisitions as a majority of

Indian acquisitions are in cash, rather than stock, this raises questions in terms of ability to finance acquisition, the route taken to do so and the impact of additional leverage on the balance sheets of Indian Acquirers. The Indian Companies Act section 372A requires shareholder approval for investments above 60% of net worth, however many large acquisitions such as Tata Steel-Corus, Bharti-Zain deal have been routed via Special Purpose Vehicles in which case the shareholders of acquiring companies are not required to give their consent. This raises questions on protection of share holder interests and their say in large cross border acquisitions undertaken by Indian firms. Finally research on cross border acquisitions in India is at a nascent stage prompting the need to undertake further research. (Gubbi, Aulakh,, Sarkar and Chittoor 2010)

We would like to study cross border acquisitions by Indian Firms following a phase wise approach.

Phase I **Pre Acquisition**	**Phase II** **Announcement**	**Phase III** **Post Acquisition**
What are the determinants of acquisitions? What factors influence the direction of capital flows?	What is the announcement period impact of acquisitions? What are the financing implications of acquisitions?	How is the post acquisition performance of acquirers?

The substantial growth in value of acquisitions leads to a number of questions pertaining to each phase of an acquisition. Phase I - What are the factors that prompt a firm to make an acquisition? What were the underlying factors macroeconomic, industry and firm specific that led to a sudden spurt in cross border acquisitions after 2000? Was this growth a direct outcome of the easing of RBI guidelines on investments abroad or were there some other underlying factors contributing to this growth. If a firm decides to go for an acquisition what then would prompt it to undertake a cross border rather than a domestic acquisition? What are the factors that determine the international direction of Capital flows from India?

Phase II - In the next phase, we propose to study the market reaction to an announcement of an acquisition. The market reaction has been studied by other researchers, however, as

discussed in the literature review there is a difference of opinion on whether acquisitions add value or are value neutral or destructive in the Indian scenario. Hence we would like to delve deeper into this question and analyze data for both short term event studies for within a few days of acquisition and longer term up to 3 to 4 weeks after acquisition announcement.
Phase III – In the third phase we would like to analyze whether acquiring firms have managed to gain the benefits they envisaged as published in company announcements at the time of an acquisition. This would include an analysis of financial performance factors and also other factors such as gain of market share, innovation etc.

Literature Review

Literature review is in three parts in line with the three phases of acquisitions to be studied.

Phase I –We review literature to identify underlying factors that prompt firms to undertake acquisitions either domestic or cross border. We also study literature on the regulations in India on cross border acquisitions to understand the role of liberalization in the growth of cross border acquisitions.

Determinants of Acquisitions: Haleblian, J., Devers, C., McNamara, G., Carpenter, M. and Davison, R.(2009) in their review of literature on mergers and acquisitions have identified value creation, managerial self-interest, environmental factors, and firm characteristics as the main reasons that firms make acquisitions. Trahan (1993) identified five primary financial characteristics that motivate firms to make acquisitions namely 1) debt capacity – measured by debt equity ratio and debt service coverage ratio, 2) firm size – measured by total sales, 3) management performance – measured by total stock market returns and dividend, return on equity and asset turnover ratio over a two year period, 4) free cash flows – dividend payout ratio and new investments as a ratio to total assets, here they expect that firms growing through internal investments may not make acquisitions 5) growth ratio – low growth firms may seek to grow through an acquisition. Huyghebaert & Luypaert (2010) study the antecedents of acquisitions for Belgian firms including firm characteristics, industry and financial market variables. They study characteristics that prompt firms to undertake acquisitions measured by variables measuring managerial motives and governance, market power, concentration, financial market conditions. The study by Huyghebaert & Luypaert (2010) is very relevant for studying acquisitions by Indian firms as this study measures factors such as competition, ownership concentration, deregulation.

Studies on determinants for Indian acquisitions – Kumar N(2007) researched a panel data set of 4271 Indian firms in manufacturing industry for the period 1989 to 2001. The variables determining the probability of acquisitions used were age of the firm, total sales, total R&D expenditure as a percentage of total sales. Royalties and professional fees remitted abroad, import of capital goods, advertising expenses, PBT to Net Worth, exports as a percentage of sales, Dummy for majority foreign owned form (25% or more), dummy for liberalization and sector dummy. The results indicated that firm age, cost effectiveness, export orientation and liberalization have a positive impact. This study researched outward FDI from India, not specific to Acquisitions. Pradhan, and Abraham, (2004) analyzed cross border acquisitions by Indian firms from 2000 to 2003 using four variables export orientation, size, profit, R&D intensity.

We find that the research on motives for acquisitions by Indian firms during the 2000 to 2008/9 period has not been adequate both in terms of the inclusion of recent acquisitions and also the determinants considered. We would like to consider the following aspects:

Synergy – One of the primary reasons that firm acquire is to benefit from synergies derived from acquisitions. Chatterjee, S., (1986) researched three types of possible synergies that could be achieved by acquisitions. cost-of-capital related, which results in financial synergy, cost-of-production related, which results in operational synergy, and price-related, which results in collusive synergy. We would like to determine the type of synergy that drives acquisitions by Indian firms.

Competition - Gubbi, Aulakh, Ray, Sarkar and Chittoor (2010) have suggested that firms from emerging markets such as India were compelled to undertake acquisitions in order to survive post liberalization. They stated that emerging market firms faced competition from multinational enterprises which had substantial financial resources, technology, superior brands and superior marketing and management skills. The local firms were under pressure to transform in order to compete and were forced to expand beyond their borders to compete against their global rivals in the home and global markets. The aspect of competition, though considered to be an important factor motivating firms to acquire has not been researched empirically.

Entry into new markets- Hopkins, H. (2008) has suggested that cross border acquisitions are an important method of entry into new markets, enabling firms to acquire established firms which is the fastest way to enter a new country. This strategy would give them an opportunity to acquire an established brand name and company behind it instead of growing a new brand in a market where customer loyalty is difficult to change. We would like to study if acquiring firms have a presence in the target country before making an acquisition.

Regulations: Afsharipour, (2010) in her review of the legal reforms and liberalization in India has commented that the Indian economy was closed to inbound and outbound investment until 1990's. In 1991, the liberalization process commenced, but the initial impetus was provided to inbound investments. Outbound investments were permitted under the automatic route up to $ 2 million in 1992, this was relaxed progressively with the passing of the Foreign Exchange Management Act in June 2000. Gopinathan S (2007) has listed the passing of the various provisions related to the liberalization of outward investments by Indian companies. An automatic route without RBI permission for investment abroad was available up to USD 50 million in a block of 3 years prior to 2000, this was relaxed in 2000 to be made available annually. In March 2002 the limit for automatic route was raised to USD 100 million annually and Companies were allowed to invest 100 per cent of the proceeds of their ADR/GDR receipts for foreign acquisitions. In 2003 companies were permitted to invest up to 100% of their net worth in overseas investments. This amount was relaxed to 200% of net worth in 2005 and then to 300% in 2007 and 400% of net worth in 2010.(RBI 2010). As per Gopinathan S(2007) the increase in 2005 triggered a sharp rise in cross-border acquisitions which rose from 46 in 2004 to 130 in 2005. The impact of regulations post 2000 on acquisitions has not been researched.

Ownership Concentration – Barai P, and Mohanty P(2010) on the basis of a study by Bertrand, Mehta and Mullainathan (2000), report that more than 50% of Indian Companies are owned by Promoters and of the balance a large portion is owned by financial institutions. The impact of ownership concentration on motivation to acquire and mode of acquisition has not been researched in the Indian context.

Prior acquisition experience – Kumar, N. (2009) in a case study on Hindalco has reported how Hindalco was able to grow revenues by 30 times in seven years , from $500 million to $15 billion by following a strategy of making several smaller acquisitions before the Novelis acquisition in 2007. He has suggested that with each acquisition Hindalco learnt new skills and techniques enabling it to make an acquisition of Novelis which was more than twice its size. We would determine if prior acquisition experience of a firm would increase the probability of an acquisition.

Financing acquisitions – Indian acquirers and foreign sellers prefer cash to stock swaps (Wharton study, 2006). Sharma S and Irani A,(2008) report that Indian firms face domestic legal and regulatory restrictions while funding acquisitions. Hence, cross border acquisitions by Indian companies are structured such that the borrower is an offshore subsidiary or special purpose vehicle set up by the Indian company. Afsharipour, (2010) reported that most Indian acquisitions have been paid in cash. Indian Banks though not permitted to lend for the purpose of share acquisitions, have been permitted to lend for the purpose of cross border acquisitions, but due to various procedural and compliance issues, most acquirers fund their acquisitions through ADR, GDR, or through financial institutions abroad. In this case the ability of and Indian firm to finance acquisitions would be impacted by its ability to raise financing through ADR GDR issues or external borrowing. The aspect of ability to finance deals and the subsequent impact of such financing by Indian acquirers has not been researched. We will study the Stand alone and consolidated debt equity ratio for the firm before and after an acquisition to determine how acquisitions have been financed.

Agency theory: Jensen (1986) suggested that managers have incentives to grow firms beyond their optimal size as this would increase their power by increasing resources under their control which would also result in increased compensation to managers. As per Jensen (1986) managers with unused borrowing capacity and large free cash flows are likely to undertake value destructive acquisitions. We would study the impact of free cash flow and leverage on the probability of acquisitions by a firm.

Behavioral finance v/s Neo classical view on merger and acquisition waves: There are two theories of why mergers and acquisitions occur. The neo classical theorists are of the view that mergers and acquisitions occur in waves and are related to industry shocks such as changes in technology or regulation (Andrade, Mark and Erik, 2001). Andrade et al (2001) find that the acquisitions by US Listed companies during 1973-1998 were prompted by deregulations. They find that short term abnormal returns for target and acquirers are positive and also operating performance as compared to industry is positive indicating that mergers create value. Behavior theory suggests that acquisitions waves are drive by stock overvaluation. Managers realize that their stock is overvalued hence they undertake acquisitions using stock as the means of payment, see Shleifer, Vishney (2003). We would like to test these theories in the Indian scenario for cross border acquisition.

Direction of Capital Flows: An econometric "gravity model" using panel data was used by Giovanni, J (2005) to identify macroeconomic factors that contribute to cross border acquisitions and flow of capital between various countries. The study was conducted on cross border acquisitions during the period 1990 to 1999. The primary hypothesis in this study was that the size of financial markets, as measured by the stock market capitalization to GDP ratio contributed positively to cross border acquisitions. Other variables in the study were income level, diplomatic relationships between countries, size, distance, information, a common language, exchange rate, tax rates in the target country, tax treaties, trade agreements, goods trade, and wage differentials. Hyun, H., & Kim, H. (2010) researched a large panel dataset covering 101countries for the period 1989–2005 to identify the country characteristics in bilateral cross-border M&A flows again using a "gravity model" researched the impact of "deepening" of financial markets and institutional quality . Here again the Size of the financial markets of the acquiring company as defined by the market capitalization to GDP ratio has been found to be a significant factor contributing to cross border acquisitions.

Gubbi, Alukh, Ray, Sarkar and Chitoor (2010) used the Economic Freedom Index of the target country as an independent variable to determine the abnormal returns. The Economic freedom index is constructed by the heritage foundation in collaboration with the wall street journal. It publishes an overall index of economic freedom which is based on 10 components including business freedom, trade freedom, monetary freedom, freedom from corruption. These indexes are proposed to be used in our study to identify the probability of a firm carrying out an acquisition both for the acquirer and also for the target.

The other macroeconomic determinants of interest have been identified as Forex rate (v/s US Dollar), Market Capitalization. Human Development Index, GDP.

Studies on Indian Outward Investments - Hattari and Rajan (2010) researched the determinants of outward FDI from India during 2000 to 2005. The factors used were GDP of host and source country, whether the host and source shared a common colonial relationship, common official language, exchange rate, distance, market cap to GDP, trade to GDP, trade agreements, Capital account openness, bilateral exports, school enrollments, electricity output etc. They concluded that outward investments from India seem to be more for seeking markets and resources than for seeking R&D investments. The model tested by Hattari and Rajan (2010) was for overall FDI by India and not specifically for Acquisition outflows.

Research Question 1: What are the firm specific, industry and market factors that motivate acquisitions? – This study would examine the probability of a firm undertaking an acquisition (either domestic or cross border).

After the first stage probability is determined, we would move on to identify the probability of an acquiring firm making a cross border acquisition rather than a domestic acquisition. In this case some of the factors identified in Research Question 1 would be repeated, In addition we would study macro economic factors and regulations pertaining to cross border acquisitions.

Research Question 2 : What are the factors either firm specific, industry wide, macroeconomic or regulatory that impact the probability of an acquiring firm undertaking a cross border acquisition?

We would like to determine the characteristics that make a particular target country attractive for investments by Indian firms.

Research Question 3: What factors determine the direction of capital flows from India, i.e. what are the country characteristics that impact the value of acquisitions by an Indian firm in a particular country.

Phase II - Market reaction to acquisition announcements

Studies in the developed world, have found that cross border acquisitions either lead to negative abnormal returns or to statistically insignificant positive returns to the acquiring firm shareholders. (Laabs and & Schiereck (2010), Moshfique and Agyenim (2009))

Studies on Cross Border acquisitions on Indian acquirers have been limited. Saboo and Gopi (2009) researched both domestic and Cross Border acquisitions using operating performance measures, they found cross border acquisitions had a negative impact. Gubbi et al.,(2010) and Kale and Khanna (2009) studied cross border acquisitions using event study methodology. In both studies acquiring firms were found to have had positive cumulative abnormal returns.. Gubbi et al.,(2010) found that controlling stake acquisitions yield nearly 2% additional gains over non controlling stake acquisition, service sector acquisitions yield higher returns than manufacturing sector acquisitions and acquisitions of privately held firms lead to marginally lower returns than the non-private firms. In contrast to the above two studies, Chakrabarty (2007) concluded that even though event study results show positive results during the 3 year post acquisition period, these results become statistically insignificant if adjustments are made for industry factors. In fact acquirers perform worse than the index and industry, hence suggesting that cross borders is value destructive. Hence, considering the above contradictory results and the scarce studies so far on Indian Cross Border acquisition we propose to study the following hypothesis:

Research Question 4: What are the announcement impacts of cross border acquisitions by Indian firms.

Phase III:

We examine to what extent firms have been able to achieve the benefits envisaged at the time of acquisition announcement allowing for a 3 year time frame for integration and achieving synergies.

There are several deal specific, firm and environmental factors that have been examined to study their impact on acquisition performance in acquisitions by developed market acquirers. These factors have been studied to a limited extent in the Indian context. Gubbi et al., (2010) researched the impact of following factors on cross border acquisitions: OECD countries or non OECD country, real GDP difference between target country and India, Economic freedom index between India and target measured by short term abnormal returns.

Studies in Developed Markets: Industry relatedness between the acquiring and target company was found to contribute positively to performance by Ahuja & Katila (2001) for moderate level of relatedness v/s high or negligible amount or relatedness. Kusewitt (1985) and Singh, H, & Montgomery, C., (1987) also found that relatedness contributed positively to performance.

Acquisitions undertaken in a low market cycle were found to exhibit better performance than those undertaken in high market cycle by Pangarkar and Junius (2004); Kusewitt, J., (1985).

Executive departure of acquired company management was found to impact performance negatively by Cannella, A.,and Hambrick, (1993); Krishnan, Miller, & Judge, (1997); Zollo & Singh (2004)

Past acquisition experience of Acquiring companies was found to contribute positively Fowler & Schmidt (1989); Hayward, M, (2002).

Several other factors such as price paid, knowledge integration, acquisition interval, size of acquire historical performance etc have been studied.

The study by Gubbi et al focused on short term abnormal returns, however we would like to also study the operating performance returns as measured by post acquisition financial performance.

Research Question 5- How is the post acquisition performance of Indian cross border acquiring companies ? What is the influence of deal financing structure, acquisition premium, corporate governance scores, board composition, human development index, firm size etc on acquisition performance.

At the time of acquisition announcements, firms announce the expected synergies or benefits expected as a result of the announcement. However, there has not been a study relating the reason for acquisition with post acquisition results. For example, if an acquisition in the pharmaceutical industry is prompted by acquisition of patents or R&D capability, we should find an increased level of patent filings or new drug introductions by the firm.

Research Question 6 – Have the benefits envisaged at the time of the acquisition as identified by a text search of company and analyst views at the time of an acquisition announcement materialized post acquisition.

Research Objectives:

The primary objective of the research is to study Cross-border Acquisitions undertaken by emerging market countries with evidence provided by Indian Companies. Research objectives as identified by a review of literature are:

1. To determine the firm specific, industry and market factors that motivate acquisitions? – This study would examine the probability of a firm undertaking an acquisition either domestic or cross border.

2. To determine the factors either firm specific, industry wide, macroeconomic or regulatory that impact the probability of an acquiring firm undertaking a cross border acquisition?

3. To study the factors that determine the direction of capital flows from India, i.e. what are the country characteristics that impact the value of acquisitions by an Indian firm in a particular country?

4. To evaluate if cross border acquisition announcement create value for the acquiring firm shareholders.

5. To evaluate the post acquisition performance of Indian cross border acquiring firms? What is the influence of deal financing structure, acquisition premium, corporate governance scores, board composition, human development index, firm size etc on acquisition performance?

6. To determine whether benefits envisaged at the time of the acquisition as identified by a text search of company and analyst views at the time of an acquisition announcement materialized post acquisition. This would be done for a smaller set of acquisitions.

Data and Methodology

Data for acquisitions would be obtained primarily from the SDC Platinum database of Thomson Financial and supplemented with information from CMIE database Prowess and Venture Intelligence an Indian data base detailing all domestic and cross border acquisitions by Indian Companies.

We would research acquisitions by Indian Listed companies of either listed or unlisted targets. Acquisitions of a majority stake of more than 50% and deal values of $50 million and above would be used. The reason for the $ 50 million cut off is prompted by the RBI regulations that initially permitted acquisitions abroad up to $ 50 million in a block of 3 years which was relaxed to $ 100 million in 2002. The period of study would be from 2000 to 2008. This would allow us to study the impact of liberalization of regulations pertaining to outward FDI which commenced in 2000 and also allow for data for three years post acquisition.

The data and methodology for each research question is described:

Phase I

What are the firm specific, industry and market factors that motivate acquisitions? – This study would examine the probability of a firm undertaking an acquisition either domestic or cross border. Logit regression model would be used to determine the probability of a firm undertaking an acquisition.(no differentiation between cross border or domestic).

The model would be in the form :

$$\text{Acquisition}_{0,1} = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \ldots\ldots\ldots \beta nXn$$

Acquisition $_{0,1}$ is the dependent variable that take the value of 1 if the firm has undertaken an acquisition and 0 otherwise.

The determinants used for this analysis are listed in Appendix 1. The independent variables X_1 to Xn identified on review of literature are log of total assets, P/E multiple, dividend payout ratio, growth ratio, new investments/total assets, cash ratio (cash and cash equivalent to total assets), ownership concentration, intangibles/assets, Herfindahl Hirshmann Index, industry regulation, industry growth rate… Additional variables would be identified during the course of research. Data would be obtained from annual reports and Prowess.

What are the factors either firm specific, industry wide, macroeconomic or regulatory that impact the probability of an acquiring firm undertaking a cross border acquisition?

The logit probabilistic model defined for research question 1 would be used, in addition Macro economic factors such as GDP, Forex value of Indian Rs v/s dollar, dummy for outward FDI regulation events would be used. Firm specific dummy variable for listing abroad and existing external commercial borrowings would be added. GDP data would be obtained from Euromonitor International and Forex rates from RBI web site.

What factors determine the direction of capital flows from India, i.e. what are the country characteristics that impact the value of acquisitions by an Indian firm in a particular country?

A panel regression model would be used with the value of acquisitions by Indian firms in a particular country being the dependent variable and the independent variable would include business freedom, trade freedom, monetary freedom, freedom from corruption published by Heritage Foundation. In addition listing of Indian ADR/GDR's in the target country, external commercial borrowings between India and target, bilateral agreements, common language, ratio of Market Capitalization to GDP for India and Target, quantum of trade with the target country would form independent variables.

The model used would be a Tobit Regression, with first stage logit model used to determine the probability of an acquisition, the reverse mills ratio identified would be then used to run a second stage OLS regression model.

Phase II

Do cross border acquisition announcements create value for the acquiring firm shareholders. The most commonly used methodology is event studies. This methodology involves estimating normal returns for the selected firm during a estimated duration before the event (Merger/acquisition announcement). Then duration of event period is selected for studying the abnormal return. Typically the market return model is used for estimating abnormal returns.

$$Rit = \alpha i + \beta iRmt + \varepsilon it$$

$$E(\varepsilon it = 0)\ ,\ \mathrm{var}(\varepsilon it) = \sigma\varepsilon i$$

where *Rit* and *Rmt* are the period-*t* returns on security *i* and the market portfolio, respectively, and ε*it* is the zero mean disturbance term. α*i*, β*i*, and εi are the parameters of the market model. The abnormal returns are aggregated to measure against the defined hypothesis on performance of an acquisition. We would perform short term event studies from event announcement to 5 days post announcement and from 6 days to three weeks post announcement. A period longer than this is not considered due to the risk of confounding events.

Phase III

How is the post acquisition performance of Indian cross border acquiring firms? What is the influence of deal financing structure, acquisition premium, corporate governance scores, board composition, human development index, firm size etc on acquisition performance?

Healy, Palepu and Ruback, (1992) largely contributed to the growth of operating performance methodology. They used an operating cash flow measure of operating performance which has been adjusted against industry benchmark returns to evaluate performance for a period of 5 years post acquisition. Various measures of operating performance have been used by researchers Ratio of operating cash flow to market value of equity + book value of debt, Return on assets, return on equity, EBIT/Total Assets, Net Profit /Total Assets, Net Profit/Net Sales, Net Profit/Common equity, Total Debt/Total Assets, Total Leverage/Total Assets, Price Earnings Ratio. A combination of these factors would be used to determine operating performance with the industry.

A panel regression analysis of firm operating performance with various firm and deal specific characteristics would be performed to analyze the sensitivity of performance to factors such as deal financing structure, corporate governance scores, board composition, human development index, firm size, economic freedom index of target, corruption index of target etc.

Have the benefits envisaged at the time of the acquisition as identified by a text search of company and analyst views at the time of an acquisition announcement materialized post acquisition.

The model for determining the relationship between announcements and post acquisition results would be first carried out on a sample of cases to determine model that can be used.

Expected Findings

We expect to be able to identify key determinants that prompt Indian firms to undertake acquisitions either domestic or cross border, and further determinants for cross border acquisitions.

We would identify the factors that determine direction of flow of capital for outward cross border acquisitions from India.

We would evaluate cross border acquisition performance to measure if they are value enhancing or destructive on the basis of short term event studies and operating performance results.

Significance of Research

The proposed research will contribute to an enhanced understanding of cross border acquisitions by emerging market firms, specifically Indian firms. India has been at the forefront of emerging market acquisitions.(AT Kearney 2008) However, research on cross border acquisitions by India firms is in the nascent stage and done in pockets. Recent studies have primarily done short term event studies to determine stock market reaction to announcement of acquisitions; Gubbi, Aulakh,, Sarkar and Chittoor (2010); Barai, P and Mohanty, P (2010); Chakrabarty (2007). To our knowledge a study of all phases of cross border acquisitions has not been done so far.

The findings from this research would benefit policy makers, corporations, deal makers and academicians.

From a policy perspective, we look at various questions which would be of interest to policy makers such as why do firms acquire; how regulations have impacted the number and value of acquisitions; policy impacts on deal structures; the factors that impact the direction of international flow of capital etc.

Research would provide insight to firms on when it would be beneficial for them to go for an acquisition. What factors contribute positively to making successful cross border acquisitions in terms of financials, growth rate, ownership concentration, industry concentration etc.

Deal makers and academicians would benefit from inputs on factors that impact the probability of a firm making an acquisition, what factors contribute to making a cross border acquisitions. Which countries are the likely targets for acquisitions? How does an acquisition impact short term and long term performance of firms. Finally whether the benefits envisaged at the time of acquisition have materialized.

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Appendix 1 - Determinants of Acquisitions

Determinant	**Data Source**
Firm characteristics	
EBITDA/Total Assets - The ratio of earnings before interest, taxes, depreciation and amortization to total assets	CMIE Prowess
Cash Ratio - The ratio of cash and cash equivalents to total assets	CMIE Prowess
Leverage - Debt/Equity Ratio (stand alone and consolidated to test for financing)	CMIE Prowess
Export Intensity – Exports to Total Sales	CMIE Prowess
R&D Intensity – R&D expenditure/Total Sales	CMIE Prowess
Competition - Herfindahl-Hirschman index – Computed using Sales to denote market share	CMIE Prowess
Industry Dummy	SDC/Venture Intelligence
Ownership Concentration	CMIE Prowess
Industry Deregulation – Dummy if industry has been deregulated	Datamonitor/CMIE Industry Analysis
Existing Borrowing Relationship with international Banks	Company Annual Report
Subsidiaries Abroad	Company Annual Report
Outward FDI Regulation – Dummy for year of deregulation	RBI notification
Past Acquisition Experience	SDC /Venture Intelligence
Country Characteristics	
Business Freedom	http://www.heritage.org
Trade Freedom	http://www.heritage.org
Monetary Freedom	http://www.heritage.org
Freedom from Corruption	http://www.heritage.org
Investment Freedom	http://www.heritage.org
Gross Domestic Product	http://data.worldbank.org/
Stock Market Capitalization to GDP	http://data.worldbank.org/ http://www.bseindia.com/
Consumer Price Index	http://www.imf.org/external/data.htm
Bilateral exports	http://www.imf.org/external/data.htm
Outward Cross Border Acquisitions by country	http://www.unctad.org
Real Exchange Rate - bilateral nominal exchange rate of the source economy currency with respect to the host economy currency adjusted for relative	http://www.imf.org/external/data.htm