Chapter 6: Conclusion
This chapter concludes the study and provides a direction to future research. The background section summarises the motivation for this research, the objectives of the study and scope of the study. The second section summarises the results from the study and draws overall conclusions based on the findings. The third section lists the suggestions, followed by a discussion on the contributions from this study, limitations and direction for further research.

6.1 Background

Data on international acquisitions has shown a dramatic rise in cross border acquisition by Indian firms post 2000. A review of extant literature reveals that despite the growth in cross border acquisitions originating from India, there are gaps in the literature that warrant further investigation. Existing studies have largely focused on short term stock market performance of cross border acquisition announcements. There is limited literature on understanding the characteristics of firms and factors that have motivated firms to choose inorganic growth via cross border acquisitions. Further though studies have examined short term performance there is a limited knowledge on the impact of factors that motivate acquisitions, deal and target characteristics, and economic conditions on short term performance. Long term acquisition performance both in terms of long term stock market returns and operating performance has been examined to a limited extent using small samples or a case based approach. Further, there are methodological issues associated with long term stock market performance which have not been addressed as per the findings from the review.

This research study examines the decision made by Indian firms to grow through cross border acquisitions during the period from 2002 to 2010 and analyzes the outcomes of these decisions. The decision of adopting a cross border acquisition strategy is explored in three phases. The first phase examines determinants of acquisitions that identify the characteristics of firms that choose to grow via cross border acquisition. The next phase examines post acquisition short term performance including a cross sectional analysis of factors that impact performance. The last phase examines post acquisition long term performance. The findings from the three phases are brought together to form final conclusions and suggestions from this study. The results from the study are summarized and inferences drawn in the next sections.
6.2 Results

Figure 13: Factors Influencing a Cross Border Acquisition Decision

This study has been carried out on a sample of 661 cross border and a control sample of 991 domestic mergers and acquisitions that were announced between 2002 and 2010. A Sequential Logit model has been selected for the analysis of determinants. The model examines the cross border acquisition outcome in two stages. In the first stage the model measures the log odds of different factors that impact the probability of a firm undertaking any deal v/s no deal. In the second stage the model examines the factors that impact the log odds of undertaking a cross border deal v/s a domestic deal. Figure 13 describes the results from the second stage sequential logit model that examines the log odds of a firm making a cross border vis-à-vis a domestic acquisition. The results from the model indicate that there is a significant difference in firm, industry and corporate governance characteristics of firms that make cross border deals vis-à-vis firms that make no deals and domestic deals.

Cross border acquirers tend to be larger, have more cash available, are younger, belong to more competitive industries, have lower promoter holdings and have a higher level of performance than firms that make domestic acquisitions or those that undertake no deal. The level of borrowing or belonging to a group firm does not influence the possibility of undertaking a cross border v/s domestic deal. Also being a manufacturing firm or a firm
in the manufacturing sector operating in a highly competitive environment does not influence the decision to undertake cross border deals.

It is not surprising that firms with a larger asset base and better performing firms are more likely to do a cross border deal. Firms need to have a larger asset base and performance in order to tide over the difficulties that may arise due to institutional differences, cultural differences and geographical distances involved in a cross border deal. Younger firms are more likely to make cross border deals. This supports the suggestion that older firms are more risk averse and resistant to change. Younger firms from India, especially from the Information Technology Industry have done a number of deals in the period of study.

Having cash positively influences the decision to do cross border deals. Since, a majority of cross border acquisitions by Indian firms involves a cash deal; having high cash balances would positively influence the odds of undertaking a cross border deal. It is interesting to note that leverage of the acquirer does not influence the log odds of a cross border deal. This seems to be arising from the fact that cross border acquisitions from India, involve the setting up of Special Purpose Vehicles (SPV). Loans are taken in the SPV and financed against the assets of the target firm, e.g. Tata Steel UK was set up as a SPV at the time of the Tata Steel Corus acquisition. Hence, the acquiring firms leverage is not as important as the availability of cash flows with the target firm to service the loans. This study has not examined the target financials; hence this aspect cannot be tested.

Ownership concentration as measured by promoter holdings negatively influences the log odds of a cross border deal and also any deal. Owners with high stakes seem to have a reluctance to take on cross border acquisitions which are considered to be more risky than domestic acquisitions. This may also arise from a reluctance to be open to international scrutiny when a firm goes cross border.

The finding suggest that firms in a highly competitive industry are more likely to undertake a cross border deal, supports the assertion that competition in the domestic market drives firms to go cross border to improve their competitive strength by acquiring tangible and intangible assets.

Thus the study on the determinants of acquisition decisions finds that the decision to do cross border deal is not a random phenomenon but influenced by firm, performance,
industry and governance characteristics of a firm. This study has been able to identify the factors that impact the decision to undertake cross border acquisitions.

This study next examines the performance of acquisitions, commencing with short term stock market performance on deal announcement.

Figure 14: Short Term Stock Market Reaction to Cross Border Deal Announcements

Short term returns for acquiring firms around the announcement date have been measured by computing the cumulative abnormal returns from one day before the announcement date to one day after the announcement date (Three day CARS) for 610 deals. Eleven day CARS have been computed by summing abnormal returns from five days before announcement to five days after announcement for 603 deals. At-testis used to determine if returns are significantly different from zero. Results indicate that the three day returns are significantly positive for all deals and also cross border deals for the entire sample period. However, eleven day returns are not significant. Hence, there seems to be a positive reaction by the market on acquisition announcements, which dies down over a longer duration.

The results from a cross sectional analysis of factors that influence three day stock market cumulative returns is depicted in figure 14. The factors on the left are the determinants of
acquisition decisions and the factors on the right are the deal, target characteristics and economic conditions. From all the factors that impact the decision to do a deal, only Assets measured by the lag of the natural log of total assets of a firm influence the short term market reaction to deal announcements. A cross sectional analysis of three day returns reveals that returns are negatively related to firm size. Though larger firms are more likely to do a cross border deal, they are more likely to be greeted with negative stock market reaction. The negative reaction may be because the markets perceive that these acquisitions may be driven by managerial self interest or hubris motive to grow firms beyond the optimal size.

Examining the impact of deal, target and economic conditions on short term performance (the factors on the right side in Figure 14) only the factors Pre crisis and Horizontal deals influence the short term market reaction, other factors do not influence short term performance. Pre Crisis, denoting deals that took place prior to 2008, before the onset of the financial crisis are greeted with a significantly positive market reaction as compared to those that took place from 2008 to 2010. This seems to indicate that the market was buoyant and greeted cross border acquisition announcements positively before the crisis, but took on a more cautious and negative approach after the crisis. The initial reaction may have been driven by the novelty of seeing Indian firms turning acquirers in the international markets. Horizontal deals between acquirer and targets belonging to the same three digits SIC code are greeted with positive reaction. This finding lends support to the theory that the market perceives more positive synergies from deals within the same industry.

The findings from the study on short term returns are that acquiring firms earned positive abnormal returns for the three day window. Other than size, none of the other determinants of acquisition decisions influence short term returns. Same industry deals with a higher potential for synergies are greeted positively. Also the results are driven by acquisitions prior to 2008 that were greeted by positive market reaction.

Long term returns have been computed by looking at two measures of performance, the first is stock market based and the second based on accounting ratios of operating performance. The results are described in Figure 15.
Figure 15: Long Term Performance of Acquisitions

Long term stock market based performance is measured by comparing the buy and hold returns in the acquiring firm stock as compared with a portfolio of firms matched on size and value for a 24 month period for 606 deals. A Skewness adjusted t value is used for measuring the significance of difference in returns. Use of a matched portfolio of firms instead of a benchmark portfolio and computing a Skewness adjusted t statistic deals with methodological issues pointed out in literature. The findings suggest that investors in cross border acquiring firms do not earn long term buy and hold abnormal returns.

A cross sectional analysis of return reveals that larger firms earn lower long term returns. Older firms and firms with larger promoter holdings earn positive long term abnormal returns. Factors such as cash, leverage, performance (TobinQ), level of competition (Industry), belonging to an ownership group and being in the manufacturing industry does not influence long term returns. However, firms in the manufacturing sector that operate in a highly competitive industry earn positive long term abnormal returns when they make cross border acquisitions.

Lower returns to larger firms may be arising out of difficulty in integration associated with larger firms or acquisitions being driven by hubris or managerial self interest. Older firms may be in a better position to earn positive returns due to organizational learning through experience. Promoters with large holdings may take an active interest in integration to ensure higher returns. Manufacturing firms operating in a highly
competitive industry may be able to improve their competitive position via cross border acquisitions.

Accounting based ratios have been computed for 351 acquiring firms three years post acquisition announcement and for non acquiring industry peers at the same point in time to measure if there is a difference in performance of acquiring firms. Conclusions are drawn using the operating cash flow ratio which takes care of differences in accounting and financing of acquisitions. The findings indicate that there is no deterioration in performance of acquiring firms vis-à-vis industry peers.

Ratios for 311 acquiring firms three years post acquisition are also compared with pre acquisition performance one year prior to acquisition. The intention is to find out if cross border acquirers performance has deteriorated as compared with their performance prior to acquisition announcement. Conclusions are drawn on the basis of operating cash flow ratios to deduce that acquiring firm performance has not deteriorated with respect to its pre acquisition performance.

6.3 Overall Conclusions

Findings from the study are summarized in Figure 16. To conclude, this study finds that firms that make cross border acquisitions decisions have certain identifiable firm, industry and governance characteristics. In the short term the stock market has reacted positively to acquisition announcements, except for announcements during the 2008 to 2010 time period. The analysis of long term returns does not indicate a destruction of value in the long run.

Firms contemplating cross border acquisitions can use the findings from this study to form an opinion on the likelihood of being successful in making cross border acquisitions. While larger firms are more likely to be successful in making cross border acquisitions, they should be cautious in their approach in pursuing an inorganic cross border growth strategy, as the market is more likely to perceive that their strategy is driven by empire building or hubris motives. Firms in the manufacturing sector that operate in a highly competitive environment are more likely to add long term value to shareholders when they decide to make a cross border acquisition.
**Figure 16: Overall Conclusions of Study**

- **Cross Border Acquisition Decision**
  - **Long Term Stock Performance**
    - 24 month BHAR
    - Determinants: Assets, Cash, Age, Industry, Promoter Hldg, TobinQ (+), Leverage, Group, Mfr, Mfr_Ind
  - **Long Term Operating Performance**
    - Operating Cash Flows 3 years
    - Determinants: Assets, Cash, Age, Industry, Promoter Hldg, TobinQ (+), Leverage, Group, Mfr, Mfr_Ind
  - **Short Term Performance**
    - 3 Day CARS
    - Determinants: Assets, Cash, Age, Industry, Promoter Hldg, TobinQ (+), Leverage, Group, Mfr, Mfr_Ind
  - **Other Factors**
    - Pre crisis
    - Horizontal
    - Public Trgt
    - DevelopedTrgt
    - Post Acq stake

Colour Green Indicates Positive Impact, Red indicates negative and blue indicates no significant impact.
Younger firms are more likely to pursue cross border acquisition strategies; however, these acquisitions may be value destructive in the long run. Promoters with high ownership concentration are less likely to pursue cross border growth strategies; however they have been more successful in enhancing firm value in the long run when they pursue cross border acquisition strategies.

From a policy perspective the findings suggest that firms have taken advantage of the liberalization of outward investment policies by expanding overseas via cross border acquisition, and have not lost out by choosing to do so.

6.4 Suggestions

This study finds firms that undertake cross border acquisitions do not lose out in the long run. Firms that wish to make cross border acquisitions should continue to do so when their intent is supported by factors such as assets, performance, and cash availability. However a few caveats and positives apply to firms with specific characteristics:

Larger firms should be aware of negative market perception to their cross border growth strategies, and ensure that they make plans to deal with this perception and also ensure smooth post acquisition integration to create value.

Younger firms should be cautious in their approach to grow rapidly via cross border acquisitions, as cross border acquisitions early in a firms life cycle may lead to a loss of value in the long run.

Firms with large promoter holdings are more likely to be successful in creating long term share holder value when they pursue a cross border acquisition strategy. Hence, though promoters are resistant to cross border acquisitions, they should look for such opportunities that may be strategically beneficial for them.

Manufacturing firms operating in a highly competitive domestic industry should explore opportunities to increase value through cross border acquisition strategies.

6.5 Contribution

This study fills a very significant gap in literature by exploring emerging market cross border acquisition decisions. It adds to the current literature on cross border acquisitions by analyzing the impact of firm and industry characteristics on the probability of
choosing a cross border acquisition strategy over a domestic acquisition strategy in an emerging economy like India. The impact of competition, promoter holdings and ownership concentration on cross border acquisition decisions which have not been explored in the Indian context are analysed. The impact of factors that motivate acquisition decisions on acquisition performance in the short and long run which have been explored to a limited extent in literature are examined. Data from this research provides evidence on long run acquisition performance using both stock market and accounting based measures of performance using a large sample of deals and firms, thus contributing to the literature on cross border acquisitions which is at a nascent stage. This study also deals with methodology issues that have been pointed in literature but not dealt in the present body of literature on Indian cross border acquisitions.

The period of study covers the period when India liberalized its outward investment policy. Hence, it provides insights on how firms have responded to the policy initiatives taken by the government in opening up the Indian economy to outward FDI.

In addition to academia and policy makers, insights from this study provide useful inputs to managers as they make future strategic choices, and also to the investment community in analyzing acquisition decisions by firms.

6.6 Limitations of Study

The sample of acquisitions covered was fairly large and results are robust to change in sample size, however a number of observations have been dropped due to data requirements for a sufficient time period to carry out the various tests involved. There may be a possibility of confounding events and acquisitions that may impact the findings. The sample selected for studies has been suitably modified for running robustness tests following other studies in the body of literature to avoid the results being influenced by frequent acquirers.

6.7 Scope for Further Research

This study is focused on acquisitions by Indian Firms. A similar study could be conducted on other emerging markets such as China, Malaysia, the United Arab Emirates, Russia and South Africa that experienced liberalization of outward investment policies during the 2000s. It would be interesting to see if the Indian experience is unique or
similar to that experienced by other emerging markets. A case based analysis using the data from this research could provide additional insights on inorganic growth strategies of emerging market firms. This study has examined the financial outcome of cross border acquisitions. In further analysis the strategic outcomes of acquisition decisions could be examined.

This chapter concludes the study. Objectives laid out for the study have been achieved, inferences drawn, contributions of the research have been listed and areas for future research have been identified.