CHAPTER 8
SUMMARY AND CONCLUSIONS

The objective of the present study is to assess the determinants of value creation in mergers and acquisitions. For this the analysis is divided into four sections. Firstly, the study tries to evaluate the impact of mode of payment employed and ownership structure on the wealth gains of the acquiring and the target company shareholders in domestic acquisitions. Secondly, the study seeks to resolve the ambiguity regarding source of value creation in cross border acquisitions by presenting two schools of thought viz. industrial organization school and the bid specific factor school. Thirdly, the impact of earnout offers, that are specifically designed to manage the risk of valuation error in acquisitions in imperfect information markets, on the wealth of the acquiring company shareholders has been assessed. Lastly, the effect of brand acquisitions that are driven by the objective of filling the intangible resource gap in case of changing business environment has been studied for both domestic and cross border brand acquisitions.

The specific objectives of the study are as follows:

1. To examine the impact of mode of payment on the acquiring and target shareholders announcement returns in domestic acquisitions.
2. To study the effect of insider ownership on the acquiring and target shareholders announcement returns in domestic acquisitions.
3. To assess and compare the target company’s announcement returns in domestic acquisitions and in inbound cross border acquisitions.
4. To evaluate and compare the acquiring company’s announcement returns in domestic acquisitions and in outbound cross border acquisitions.
5. To study the impact of earnout acquisitions on the announcement returns of the acquiring companies.
6. To examine the impact of brand acquisitions on the announcement returns of the acquiring companies.
METHODOLOGY
For the purpose of analysis the entire database has been divided into four categories viz. domestic acquisitions, cross border acquisitions, earnout acquisitions and brand acquisitions. The sample of cross border acquisitions has further been segregated into two sub-categories viz. inbound cross border acquisitions and outbound cross border acquisitions.

For domestic acquisitions, the impact of the mode of payment on the announcement gains of the acquiring and the target company shareholders has been studied. It is followed by the evaluation of the interaction effect of mode of payment and the ownership structure on the acquiring and the target company shareholders wealth.

For assessing the sources of wealth gains in cross border acquisitions, firstly the announcement returns have been computed for the sample of domestic acquisitions and cross border acquisitions separately. Thereafter, a comparison of the wealth gains in cross border and domestic acquisition is made by computing cross border effect. Further, the influence of standard bid related and company related factors on the announcement gains have also been studied with the help of multiple regression analysis. The procedure has been followed separately for the acquiring and the target companies. For the target shareholders the wealth gains in inbound cross border acquisitions have been compared with the domestic acquisitions along with the study of the impact of bid related factors on the wealth gains in both sets of acquisitions. Similarly, for the acquiring company shareholders the wealth gains in outbound cross border acquisitions have been compared with the domestic acquisitions along with the study of the impact of bid related factors on the wealth gains in both sets of acquisitions.

The impact of earnout offers has been studied for only the cross border acquisitions as there is no earnout deal by listed acquiring companies in the sample of domestic acquisitions. Moreover, earnout offers are also not available for listed target companies in the sample of domestic and inbound cross border acquisitions. For earnout offers firstly, the situations where the probability of these offers is higher are assessed. Besides, the announcement gains in earnouts have been assessed and compared with those of cash and stock offers to know whether earnouts have generated superior wealth gains to the acquiring company shareholders in case of imperfect information market.
For brand acquisitions, firstly, the impact of overall brand acquisitions on the acquiring company shareholders' wealth is assessed. This is followed by the comparison of the wealth gains across two sectors namely, pharma sector and FMCG sector. Further, a comparison of wealth gains across domestic and cross border brand acquisitions has also been made.

**Statistical tools and techniques used for data analysis**

For assessing the wealth gains in different sample sets, the risk and the market adjusted variant of the standard event study methodology which is better known as market model has been applied. The comparison of the wealth gains in domestic and cross border acquisitions has been made with the help of cross border effect while the comparison of wealth gains in FMCG and Pharma acquisitions (for the sample of brand buyouts) is made by computing sectoral effect. Cross border effect is defined as the difference in the wealth gains of cross border acquisitions and domestic acquisitions while the sectoral effect is defined as the difference in the announcement gains of acquisitions in FMCG sector and the pharma sector. To comment upon the significance of difference in the announcement gains across border and across sector, independent sample t test has been applied.

Besides, the impact of bid related factors on the announcement gains of the acquiring and the target companies in domestic and cross border acquisitions has been studied with the help of the multiple regression analysis. The likelihood of earnout offers has been studied by employing logistic regression analysis while the comparison of the returns across earnouts, cash and stock offers has been made with the help of one way analysis of variance (ANOVA).

**SALIENT FINDINGS OF THE STUDY**

The key findings that have emerged from the entire analyses and the related discussion on these findings are detailed as follows:

**Impact of mode of payment on the acquiring and the target shareholders’ announcement returns:** From the sample of domestic acquisitions where we have studied the impact of mode of payment and ownership structure on acquiring and target company shareholder wealth, the following key findings have emerged from the analysis:
Firstly, domestic acquisitions have created maximum value for the shareholders of the target companies’ engaged in cash offers followed by the shareholders of acquiring companies’ engaged in cash offers, target companies’ shareholders engaged in stock offers, and lastly for the acquiring companies’ shareholders engaged in stock offers. The results are in confirmation with the information asymmetry hypothesis. It is due to the information asymmetry regarding the valuation of target companies’ assets that acquiring companies have used either stock or cash. Depending upon the mode of financing employed, the stock market has given differing reaction to the stocks of the acquiring and the target companies. The stock market has given positive and statistically significant returns to the announcement of cash offers to both the acquiring and the target companies considering these to be less risky.

Secondly, target companies have earned positive returns in case of both stock offers as well as cash offers though larger value has been created in the latter. Acquiring companies have also gained from cash offers but more value has been carried away by the target shareholders. The result is supported by the taxation hypothesis which states that the acquiring companies earn lesser returns in cash offers as compared to target companies because the acquiring companies generally overpay in such acquisitions.

Thirdly, the market reaction to stock offers has been positive not only for the target companies but for the acquiring companies as well. Nonetheless, positive value has been created only in within group stock offers. Thus, division of stock offers into within-group and non-group categories reveals that the stock market has interpreted stock offers as a riskier strategy for non-group mergers but for within-group mergers, these have been considered as a positive action on the part of the acquiring companies.

Lastly, the value has improved with the increase in the level of ownership for within-group stock offers (that are more susceptible to tunneling of resources by controlling shareholders). Thus, it can be inferred that controlling shareholders do not pursue within-group stock offers just to shift resources from one group company to another group company or towards themselves for their personal benefits. Rather, these are aimed at adding value to shareholders by realizing various operating and financial synergies by combining the resources of group companies. Thus, the results are in corroboration with the value added view in case of within group stock offers.
Thus, the results of the domestic acquisitions highlight that in an asymmetric information market the mode of payment employed in an acquisition along with the ownership structure are the signals that highlight the managerial motivations for an acquisitions and thus of the value creating potential of such acquisition to the market at large.

**Impact of cross border acquisitions on announcement gains:** The key findings emerging from the analysis of inbound and outbound cross border acquisitions have been detailed and discussed as follows:

**Impact of cross border acquisitions on the target shareholders’ wealth gains:** Assessing and comparing the wealth gains of target shareholders in domestic and inbound cross border acquisitions it is found that for the target company shareholders, the value creation is a function of different bid specific factors and not the nationality of the acquirer. Out of the various bid related factors, relatedness has affected the value creation the most followed by the size of the target company (that has negatively affected the announcement gains), the phenomenon of direct acquisitions, the extent of competition among the bidders, extent of hostility in a transaction and lastly by the mode of payment.

**Impact of cross border acquisitions on the acquiring shareholders’ wealth gains:** For the acquiring company shareholders it is found that the acquirer wealth gains are affected by the nationality of the target company and not by the bid related factors. The acquiring companies have gained higher announcement returns in outbound cross border acquisitions than the domestic ones. Moreover, cross border acquisitions that have been pursued in the hi-tech sector have created substantially higher wealth than the domestic acquisitions. Hence, the internalization theory of the industrial organization school of thought that attribute higher wealth gains in cross border acquisitions to the imperfections in the product market is the best explanation of the superior wealth gains of Indian acquiring companies in outbound cross border acquisitions.

**Reasons for inbound cross border acquisitions creating lesser wealth gains than the domestic acquisitions in India:** The subdued market reaction towards the announcement of
inbound cross border acquisitions for the target shareholders may be due to multiple reasons. Inbound cross border acquisitions may have created lesser wealth for the target company shareholders due to comparatively inactive Indian takeover market which in turn is a result of restrictive and conflicting regulatory environment especially for the foreign acquirers, the concentration of ownership in the hands of promoters and lastly due to inaction on the part of institutional investors. The detailed explanation of all these factors is given as follows:

The foremost reason for lesser value creation in inbound cross border acquisitions seems to be the phenomenon of indirect acquisitions. Many a times (20 out of 43 deals in our sample) cross border acquisitions of target companies in India are prompted by the global acquisition of their parent companies. Due to the absence of detailed guidelines regarding indirect acquisitions[^1] in the Takeover code given by SEBI, such deals get stuck in litigations. Hence, investors are not enthused by the announcement of such acquisitions, as they are indecisive regarding the successful completion of these deals. This may be the reason for inbound cross border acquisitions not yielding higher value than those for the domestic ones.

Yet another possible reason for comparatively lesser value creation in cross border acquisitions is the restrictive regulatory environment that hinders the flow of inbound cross border acquisitions. For instance, even when the takeover code is triggered, the foreign acquirer has to take mandatory approval from foreign investment promotion board (FIPB). Moreover, Competition Commission of India (CCI) has recently amended the Competition Act, 2002, whereby it has made it mandatory for the foreign acquirer to get CCI clearance for cross border M&As of Indian companies if the minimum combined turnover of company merging globally is Rs. 3000 crores for non-group acquisitions and Rs. 12,000 crores for within group acquisitions. Moreover, it has also increased the gestation period

[^1]: In fact, SEBI’s rules governing indirect acquisition came into being in 2002 on recommendations of the PN Bhagwati Committee. According to the rules, “The offer price for indirect acquisition is to be determined with reference to the date of the public announcement for the parent company globally or the date of the public announcement for acquisition of shares of the target company in India, whichever is higher.” However, there is lot of confusion regarding the fixation of date of actual public announcement on case by case basis. Recently, SEBI has constituted a Takeover Regulations Advisory Committee (TRAC) to review the Takeover Code and setting up of rules for indirect acquisitions is high on the priority list.
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for the approval of foreign acquisitions to maximum 210 days that can be further extended by another 60 days.

Another restriction imposed by CCI is that when an Indian target is acquired by a foreign company, it does not allow such companies to get merged. For this the foreign acquirer needs to have a local subsidiary (generally foreign companies set up their local Special Purpose Vehicle) to get the target company merged with itself.

The problem is further intensified when cross border deals get involved in regulatory quagmire due to conflict in the existing laws. For example, in the year 2000, Devonshire Capital (Mauritius) acquired 74% stake in the non-banking finance company, Times Guaranty. SEBI directed it to make mandatory open offer for 20% shares. This would increase the holding of the acquirer beyond 74% and was against the FDI norms that restricted FDI in financial sector to 74%. So Foreign Investment Promotion Board (FIPB) granted the acquisition on the caveat that the holding by Devonshire would be brought down to 74% by June 2001. These regulatory glitches lessen the investor confidence in successful completion of such deals.

Secondly, the concentration of ownership in hands of promoters is another factor that restricts the superior value creation in cross border acquisitions. The concentrated ownership along with the inclination of promoters to solely manage their businesses discourages them from sharing their ownership with others (especially the foreign acquirers). Besides, financial institutions that hold 20-25% stake in a large number of companies sometimes restrain from transferring shares to foreign acquirers to favor the Indian promoters (Mathew, 2007). The conservative attitude on the part of the promoters and the financial institutions creates ambiguities in the minds of investors regarding the successful completion of the cross border deals and thus impair their confidence. Hence, they are less enthused by the announcement of these deals and give a subdued reaction to such deals.

Dewenter (1995) also states that the reason for cross border acquisitions not creating better value than domestic acquisitions may be the lesser probability of successful completion of these deals which in turn reduces the projected net present value of such deals. Further, Eckbo and Thorburn (2000) and Moeller and Schlingemann (2005) state that target and the acquirer gains are lower in presence of the factors like
lesser active takeover market, more restrictive institutional environment and more concentrated ownership because it increase the cost of geographic diversification. These studies conclude that bidders and targets gains are positively related to the takeover activity in a target country and to a legal system offering better shareholder rights.

Another effect of restrictive regulatory environment and that of concentrated ownership is that it puts the foreign acquirer at competitive disadvantage compared to the domestic acquirers. It in turn hinders the ability of the foreign acquirers to initiate hostile tender offers and to compete with the domestic acquirers. Analyzing the sample of cross border acquisitions it is observed that there is only one hostile inbound cross border acquisition in our sample and that is also the result of an indirect acquisition. As already stated, such indirect acquisitions create lesser value. Goergen and Renneboog (2004) who compare the announcement returns of the target shareholders in UK for domestic and cross border acquisitions state that the basic reason for domestic acquisitions creating higher wealth gains than the cross border acquisitions is the higher proportion of hostile deals in the sample of domestic acquisitions.

Finally, the reason for direct inbound cross border acquisitions creating lesser wealth gains may be due to the fact that these acquisitions are usually pursued in response to the deregulation or the liberalization of the specific sector. As a result of deregulation of a sector, the foreign partner tries to acquire controlling stake in its venture in India. In fact, the modus operandi of the foreign companies for establishing their businesses in India is to first start a venture in collaboration with Indian partner by acquiring a non-controlling stake with rest of the stake being held either by Indian partner or by the general public. But as the sector deregulates, the foreign partner tries to strengthen its hold in the Indian venture by acquiring shares from the Indian promoters or from the public by announcing an open offer. Kumar (2000) states that MNCs have taken liberalization opportunity to increase control of Indian corporate sector. Zho and Simpson (2008) who study the determinants of cross border activity in China also opine that inbound cross border acquisitions in China are driven by both generic industry variables and specific shocks like industry deregulation. Due to this phenomenon, the market may not get excited by such acquisitions as they may feel that the existing foreign partner is trying to strengthen its holdings without bringing any other visible benefit.
Thus, the above cited might be the probable reasons due to which inbound cross border acquisitions in India are less value creating than the domestic ones. The results are in conformity with the existing international research on cross border acquisitions except for the phenomenon of indirect acquisitions that is unique to India.

**Reasons for outbound cross border acquisitions creating higher wealth gains than the domestic acquisitions in India:** Outbound cross border acquisitions have created higher value than the domestic acquisitions as these are driven by the motive to obtain competencies, technology, brands and knowledge so that these can be combined with their low cost manufacturing base in India to create world class companies (Kumar, 2009). Acquiring companies in India favor pursuing cross border acquisitions to expand their geographic clout in these sectors as technological intensity in an industry creates barriers to entry. Thus, recognizing the fact that the prime motive of the acquiring companies in India for cross border acquisitions is to attain synergies by connecting the intangible resources and intellectual capabilities, market welcomes announcement of such acquisitions.

Another reason for positive value creation in cross border acquisitions is that most of these acquisitions are directed towards the developed countries of the world like the US (85 out of 202) and the UK (28 out of 202) where these have to face lesser regulatory restrictions. Besides, these countries are characterized by the highly developed takeover markets where the foreign acquirers (Indian companies) are given similar treatment as given to the domestic acquirer and are offered equal chance to compete with other acquirers. Moreover, the level of concentrated ownership with the promoters is lesser and the FIs are highly active and take actions for the benefit of general shareholders. Besides, active legal framework is present for the protection of the shareholders’ rights. For example, if FIs do not sell out their holdings to the bidder for the benefit of general shareholders they can be taken to court for negligence and loss of earnings as these are regarded as fiduciaries of the interest of their shareholders. Thus, due to the lesser probability of the deal being delayed due to the prevalence of streamlined regulations and relatively open takeover markets, the investors feel optimistic towards these acquisitions as they believe that as soon as the deal is completed the acquirer would be able to work towards the realization of expected synergies. The findings give support to the notion of
Kumar (2009) who states that while 50% of acquiring companies in the developed countries fail in their acquisitions programs, Indian companies are able to gain from acquisitions because of their different approach that get exhibited in their objectives for such acquisitions.

Hence, the difference in value creation to both the acquiring and the target companies is attributed to two factors. First, the difference in motivations for inbound and outbound acquisitions. Second, the difference in institutional factors in inbound and outbound cross border acquisitions.

**Likelihood of earnout offers and impact of earnout offers on acquirers’ announcement gains:** The key findings emerging from the analysis of earnout offers is given as follows:

Firstly, the analysis of the conditions where an acquirer finds it preferable to employ earnout offers, it is found that except for the industry context, none of the other factors viz. listing status of the target, relatedness, legal environment for investor protection in the target’s country, the size of the target company do not effect the acquirer’s choice for earnout offers. It implies that there is no consistent pattern being followed by the acquiring companies for employing earnouts. These have been used extensively by the mid sized companies in hi-tech sector while in other services sectors where these can be used as a tool to retain the target manager’s these have been rarely used owing to the lack of awareness on part of the acquirers regarding these offers.

Secondly, a comparison of the earnout offers with the cash and stock offers shows that earnouts have created significantly higher wealth to the acquiring company shareholders than cash offers. However, the difference between the wealth gains of earnouts and stock offers is not significant. It leads us to the conclusion that though earnouts are designed to elude the risk of adverse selection but the market is not aware about the potential of such acquisitions in managing the risk of overvaluation in cross border acquisitions where information asymmetry on the part of the acquirer is relatively higher than in domestic acquisitions. The findings are consistent with those of Fabregat (2005) who opine that market does not offer substantial returns to the acquiring company shareholders in earnout offers than other modes of payment just due to the ignorance on the part of the investors regarding the risk hedging capacity of these offers.
Impact of brand acquisitions on the acquiring shareholders’ announcement gains:

Following key findings have emerged from the analysis of brand acquisitions:

The analysis of wealth gains in overall sample makes it evident that brand acquisitions are value creating strategies for the acquiring company shareholders though a general M&A may or may not necessarily be. The reason being a brand is one of the prominent intangible assets that enables a company to increase its future cash flows by leveraging on the brand’s long term relationship with the customers. The market has responded positively to such an announcement of the acquiring company as it believes that the company would be filling a resource gap that has the potential to create higher and stable cash flows in future and thus would generate higher wealth gains for them. However, this value creation does not accrue to all brand acquisitions and is rather sector specific and country specific.

Further on, the sector wise analysis shows that companies in the FMCG sector have created statistically significant higher returns for the shareholders than for those in the pharma sector. The results are in consonance with the opinion of Doyle (2001) who states that in an industry like pharma the intangible assets like technology, skills and competence of the staff are the major drivers of shareholder value than the brands itself. Unlike pharma sector, brands are a dominant source of value creation for companies in the FMCG sector (Doyle, 2001; Simon and Sullivan, 1993).

Also, the idiosyncrasy of the Indian pharma sector is that its strength lies in the generics drugs market (in reverse engineering the off-patented drugs) that has been created as a result of 25 years of process patent (Jha, 2007). Brands are not so important for companies dealing in generic drugs as these can be replicated by the competitors and in such a scenario companies compete purely on the basis of price. Hence, the prominence of the generics drugs market in the country may be the reason for the market not getting enthused by the announcement of such a brand buyout as the potential of such buyouts in creating future cash flows is less. However, brands are an important intangible asset for an FMGC company that enables it to establish a long term liaison with its customers than these are for a pharma company. This is the reason for the FMCG brand buyouts creating higher value for the shareholders on the announcement of such acquisitions as compared to those of the pharma brand buyouts.
Furthermore, the cross border analysis has shown that foreign brand buyouts have created lesser value for the shareholders as compared to the domestic brand buyouts. The reason being, most of the foreign brand acquisitions are directed towards developed countries, more importantly towards the US and the European countries where target companies attach higher premium to their brands (Mishra, 2007). To get access to these brands the acquiring companies end up paying a higher price for the brand as compared to the contribution of the brand to the total future cash flows of the acquiring companies. As already explained in the thesis, the market would respond positively to a brand buyout only if it expects the present value of future cash flows to be higher than the price paid for such an acquisition. Thus, paying a higher premium for the brands may be the salient reason for cross border brand acquisitions not generating highly positive value for the acquiring company shareholders. Contrarily, brands acquired within the country have created more value for the shareholders.

Thus, we can conclude that brand acquisitions have created positive and significant wealth for the shareholders. However, the value creation is not universal; rather, it is pronounced only when brand acquisitions are initiated by companies in FMCG sector than pharma sector. Further, brand acquisitions create value when an acquirer acquires a brand from a company established within the geographic territories of the country and not in case of foreign brand buyouts.

Thus, from the above analysis it is apparent that value creation in mergers and acquisitions is a function of the specific features of the deal and the characteristics of the target as well as the acquiring companies. Moreover, earnout offers that are specifically designed to hedge the risk of adverse selection in an acquisition in case of imperfect information market and brand acquisitions that are specially designed to evade the risk of resource erosion in a dynamic environment are also important determinants of the acquiring company wealth gains.

CONCLUSIONS

As per the foregoing discussion it can be deduced that value creation in mergers and acquisitions in India is influenced by the strategic features of the transaction itself and also by the specific characteristics of the participating companies. The strategic factors
influencing value creation in mergers and acquisitions as highlighted by the study are relatedness, size of the target company, phenomenon of direct acquisitions, extent of competition among rival bidders, the extent of hostility in a transaction, mode of payment, technology intensity of the target company and the ownership structure at the acquiring and the target company’s end. Moreover, study highlights that the earnout offers that are pursued as a strategy to mitigate the risk of adverse selection and the brand acquisitions that are undertaken to fill the intangible resource gap by the acquiring companies are also the key determinants of the wealth gains in mergers and acquisitions. The specific conclusions of the study based on the foregoing findings and the discussion thereon are details as follows:

1. Mergers and acquisitions are positive net present value activities for the acquiring and the target company shareholders in India. The acquiring and the target company shareholders have earned positive gains in each kind of acquisition viz. domestic acquisitions, cross border acquisitions, earnout offers or brand acquisitions. It implies that the mergers and acquisitions in India are driven by the strategic considerations and not aimed at driving personal gains by the acquiring company managers.

2. In domestic acquisitions, the acquiring and the target company shareholders have earned highly significant returns in cash offers. Besides, stock offers that are expected to generate substantial negative returns have yielded insignificant positive wealth for the acquiring and the target company shareholders. The reason is higher concentration of ownership in the hands of Indian promoters that restrict the tendency of the promoters pursuing value destroying mergers. Hence, the mode of payment along with ownership structure of the acquiring and the target companies are the key determinants of wealth gains to the acquiring and the target company shareholders.

3. Target shareholders’ gains in inbound cross border acquisitions are driven by the specific features of the deal and the specific characteristics of the target company itself and not by nationality of the acquirer. Out of various bid related and company related factors, relatedness is the most important determinant of wealth gains followed by size of the target company itself, the phenomenon of direct
acquisition, extent of competition in an acquisition, extent of hostility in an acquisition and lastly mode of payment in their order of importance.

4. Wealth gains of the acquiring companies in cross border acquisitions are highly influenced by the technology intensity of the target company. This is the reason that acquiring companies have earned substantially higher wealth gains in those outbound cross border acquisitions that are initiated to acquire intangible resources and intangible capabilities of the target companies.

5. Earnout, which is a specially designed mode of payment to hedge the risk of adverse selection on the part of a lesser informed acquirer, has generated significantly positive returns to the acquiring company shareholders.

6. Lastly, brand acquisitions that are aimed at filling the intangible resource gap by the acquiring companies in an ever changing business environment, have also yielded substantial returns to the acquiring company shareholders. However, this value is pronounced in case of FMCG brand buyouts and domestic brand acquisitions while brand buyouts in pharma sector and also cross border brand acquisitions have yielded normal gains to the acquiring company shareholders.

As the upshot of the above discussion it can be deduced that the announcement gains of the acquiring and the target companies in India are driven by an amalgam of bid related (relatedness, hostility, competition, technology intensity and mode of payment) and company related factors (size of the target company, insiders ownership of the acquiring and the target companies). Moreover, as in case of brand acquisitions the wealth gains are also influenced by the kind of asset being acquired in an acquisition and its relative contribution to the future cash flows of the company.

RECOMMENDATIONS OF THE STUDY

On the basis of foregoing discussion, the study offers following recommendations to the managers, promoters, financial institutions and to the market regulator SEBI.

Recommendation for the managers: The study offers following recommendations to the managers for designing their future acquisition strategies:

1. It has been found that, in India, the strategic bid related and company related factors are the key determinants of wealth gains for the acquiring and the target
company shareholders. Hence, at the time of negotiations related to an acquisition, the acquiring company managers are advised to give due importance to these features as these signal the influence of probable synergies of an acquisition on the future prospects of the combined company to the market at large.

2. Another recommendation of the study is regarding the use of earnout offers in case of outbound acquisitions. Kumar (2009) confers that Indian companies usually pursue cross border acquisitions to obtain competencies, technology, brands and knowledge (that are difficult to value) and also prefer to retain the target company managers in order to learn deploying these assets so that these can be combined with their low cost manufacturing base in order to create world class companies. Thus, earnout is a prudent strategy for the Indian companies for their future global acquisitions as it would enable these companies to hedge the risk of over valuation arising out of lack of expertise on their part in cross border acquisitions. This strategy would also help the Indian acquirers to retain target’s valuable human resource.

3. The study also recommends the use of brand acquisitions as a strategy to fill the existing intangible resource gap in the company by the acquiring managers. Moreover, as brand acquisitions have created a higher value in the FMCG sector and also in domestic brand buyouts, it offers an important implication for the managers of both domestic as well as foreign companies operating in the consumer goods sector in India. India has emerged an attractive market for the marketers and Beinhocker et al. (2007) state that if India is able to sustain the average growth rate at 7.5% per annum, it would treble the income of its middle class population by the 2025. As a result, India would emerge the 5th largest consumer market in the world by the year 2025 from its 12th position at present. It will in turn offer a huge market for the branded consumer products in India as the Indian middle class is highly status conscious and its consumption patterns are largely guided by the non-functional symbolic properties of the products that is, the brands (Chaudhuri and Majumder, 2006). In order to tap this huge branded goods market potential, companies may pursue brand acquisition to get a quick access to the required brands than building these in-house.
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**Recommendations for the market regulator SEBI:** As it has been found that the major reason for the inbound acquisition not creating value for the target shareholders is the inactive takeover market which in turn is a result of the regulatory restrictions imposed on the foreign acquirers. Thus, to provide equal treatment to the foreign acquirer and to create enabling environment for the foreign acquirer, SEBI should streamline rules regarding inbound cross border acquisitions especially the indirect acquisitions.

**Recommendations for the promoters and financial institutions:** Along with the streamlined procedures by SEBI there is also a need for an attitudinal change on part of the Indian promoters who are reluctant to share a seat at the board of directors with an outsider especially the foreign acquirers. Moreover, financial institutions need to react rationally and should not restrict the takeover of the Indian target company by a foreign acquirer by refusing to tender their shares if such acquisition really improves the fundamentals of the combined company. It would not only offer a chance to the target shareholders to obtain the lucrative price of its resources but would also improve the fundamentals of the combined company.

The latest example of attitudinal change is the transaction between Ranbaxy Laboratories Limited and Daiichi Laboratories that has not only offered huge fortunes to the promoters and the shareholders at large but has also enabled the company expand its geographic clout in the highly restrictive Japanese pharmaceutical market.

The above recommendations given on the basis of the conclusions drawn from the study would guide the managers in designing their acquisitions strategies. Moreover, these would guide the regulator in creating the enabling environment for the foreign acquirers by removing conflicts in the existing regulations. Furthermore, these recommendations would guide the promoters and the financial institutions in adopting a rational approach in mergers and acquisitions.

**SCOPE FOR FUTURE RESEARCH**

Research on strategic issues in mergers and acquisitions can be extended to the following areas:

Future research can be conducted to analyze the impact of the economic crises on the shareholder wealth creation in mergers and acquisitions. It is assumed that
acquisitions pursued during the period of economic slowdown create better value than those undertaken otherwise as managers take rational decisions in such situations. Thus, a study can be conducted whereby the wealth gains of the acquisitions conducted during the post crises period are compared with the wealth gains in mergers and acquisitions undertaken during pre crises period.

A cross country comparison of wealth gains in outbound cross border acquisitions can be undertaken. Moreover, a comparison of wealth gains across developed and emerging markets can also be performed for outbound acquisitions.

A study can also be conducted on comparing the wealth gains to acquiring companies for private and publicly listed target companies.