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What Drives the Global Outward Mergers & Acquisitions? Empirical Analysis on Indian Outbound Deals

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Abstract

The need for new markets, new customers, global markets and competitive advantages and many identified and unidentified factors drive to acquire businesses in other countries. Indian firms count to involve in outbound cross M&A activities in last two decades (2000-2020). This paper purposes to study the impact of different possible factors related to host countries for example country-specific macroeconomic determinants influencing the overseas mergers and acquisitions by Indian enterprises. The study identified top 10 host country destinations along with their macroeconomic factors for a period of 20 years. Panel data regression model are used to examine the impact of selected variables on deal volume of outbound M&A by Indian firms. The dynamic effects are also observed in the relationship explaining the deal volume. The variables, gross domestic product, total exports, total imports, merchandise trade and double taxation treaty were found to have significant impact on Indian outbound M&A transactions. This paper fulfills the research gap by explaining the impact of different host macroeconomic factors attracting Indian firms to make foreign acquisitions.

Keywords: Indian Mergers & Acquisitions, Cross-Border Outbound Investments, Host Country Macroeconomic Drivers, Business overseas.

JEL Classification: F21, F23, P45, G34

1. INTRODUCTION

There has been a significant spurt in foreign acquisitions by Indian enterprises in the last twenty years. Post 1990s, outbound investments by firms from emerging economies spiked, drawing everyone's attention towards it. Among these developing nations, Indian firms made a distinguished mark via magnitude of its overseas investments, especially in the form of outward cross-border M&A. This paper aims to identify and study the different host country macroeconomic determinants influencing the outward cross-border mergers and acquisitions by Indian companies, to fill the knowledge gap concerning the choice of investment location with the changing trends and patterns of outbound M&A from India.

This spurt of outbound foreign investments and their determinants have been attempted to be explained by numerous theories. Multinational enterprises make such investments overseas due to several underlying reasons for example, the exploitation of economies of scale/scope; due to a life-cycle pattern of their products (Vernon, 1966), the use of firm specific advantages (Hymer, 1960), or to avoid contracting, licensing issues and associated transactions costs (Coase, 1937; Teece, 1986, Dayeh & Janíčko, 2021). Also, as per Dunning and McQueen (1981), Eclectic paradigm's internalization advantages, companies prefer internal transaction over arm's length market transactions. Literature has also found relevance for various host and home economy macroeconomic factors as a major determinant for OFDI. Efficiency seeking, resource-seeking, strategic asset seeking, and market-seeking have been identified as motivations underlying cross border investment transaction in a number of empirical researches (Bhasin & Garg, 2019; Varma, Sun et al., 2021; Bhasin & Nayyar, 2015; Sahin & Mert, 2022; Reddy, 2015; Quyet 2022; Zhou, Kumar, Yu & Jiang, 2021; Denčić-Mihajlov et al., 2021; Xie, Reddy & Liang, 2017; Pantelidis & Kyrkilis, 2003; Deng & Yang, 2015).

1.1 Foreign Acquisitions: Indian Scenario

The 20th century witnessed a strong activity of Mergers and Acquisitions (M&A) across the globe during several times (Scherer & Ross, 1990). However, in the 1990's an altogether different form of industrial restructuring was witnessed which contrasted in many respects from prior consolidation periods (Kar & Kar, 2021). Primarily because larger multinational firms were involved, the transaction value rose drastically (Kang & Johansson, 2000). Also, M&A was not just restricted to manufacturing, but also happened in services sectors, specifically in financial services, telecommunications, and business services. Another notable characteristic was that M&A deals implied much more overseas operations, and their number grew significantly from 4149 in 1991 to 5373 transactions in 1998 (UNCTAD, 2000). Almost 90% of these M&A activities concerned developed countries' enterprises. Also on an average, these transactions represented about one quarter of total M&A transactions in the last ten years, in terms

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of value as well as volume. (Table 1)

Table 1: Volume of M&A deals in India

YEAR	Number of M&A deals in India (Purchaser)	Total number of M&A deals in India	Purchases as a % of total number of deals	Value of M&A deals in India (Purchaser) (UDS Million)	Total number of M&A deals in India (USD Million)	Purchases as a % of total number of deals
1990	2	5	40%	57.6	62.6	92.01%
1995	6	36	16.66%	25.3	249.4	11.29%
2000	30	116	25.86%	589.0	1297.4	45.39%
2005	100	204	49.02%	1,939.0	2,636.5	73.54%
2010	143	265	53.96%	26,642.0	32,254.6	82.59%
2015	54	193	27.98%	-612.5	710.9	-86.16%
2020	40	150	26.67%	3,705.6	30,916.9	11.98%
1990-2020	1676	4327	38.73%	113,768.6	287,682.4	39.54%
Source: UNCTAD						

Through cross-border M&A, multinational firms strengthened their international position on foreign markets: cross-border M&A progressively replaced Greenfield Investments in Foreign Direct Investment (FDI) over the 1990's.

From above table it’s evident that total value of cross-border Indian M&A has grown considerably as compared to total value of cross-border Indian M&As during 1990s. One prime reason could be the liberalization of policies in relation to outward foreign direct investment (O-FDI) during the 1990s (Pradhan, 2003). After following a restrictive policy on O-FDI during 1974-91, India has continually liberalized their policies commencing with the issue of the Modified Guidelines for Indian Joint Ventures (IJVs) and Wholly Owned Subsidiaries Abroad (WOSs) in October 1992 with additional modifications in May 1999, July 2002, and January 2004. These modified strategies provided for the automatic approval of proposals related to O-FDI and have uninterruptedly enhanced its scope by through increased cap on Indian equity participation. The total amount of outward FDI under the automatic route has been raised $100 million in July 2002 (from $2 million in 1992). In January 2004 the ceiling on outward FDI was further relaxed up to 100 percent of the net-worth of investing Indian enterprise. This recent liberalization of outward FDI policies will lead to a rapid acceleration in the cross-border M&A activities of the Indian enterprises.

1.2 Determinants

1.2.1 Market Size

Emerging economies' enterprises go overseas to seize the untapped demand for their good or service hence they always prefer to invest in economies with a larger market size. Having said that, investing abroad is also for expanding company's presence globally, exploring more strategic opportunities, overseas diversification and creating international brand value. Convincing evidences for market seeking motive of outward foreign direct investment were reported in numerous researches (Taylor, 2002; Zhang, 2003; Cheung & Qian, 2009;Goh, 2011; Kolstad & Wiig, 2012; Ramasamy, Yeung, & Laforet, 2012; Lv et al., 2021; Nunnenkamp, Andrés, Vadlamannati, & Waldkirch, 2012; Luo & Tung, 2007; Das & Banik, 2015; Buckley et al., 2007; Buckley, Cross, Tan, Voss, & Liu, 2006).

1.2.2 Strategic Assets

There has been a growing acceptance to the fact that technology acquisition from developed economy has been a strategic motive behind developing countries' outward foreign direct investment. These types of acquisitions helps the firm not only in exploiting existing firm specific advantages but also in acquiring and building stable competitive advantages (Athreye & Godley, 2009; Buckey et al., 2007; Das & Banik, 2015; Makino et al., 2002; Niemczyk et al., 2022; Chen & Chen, 1998; Taylor, 2002; Zhang, 2003; Warner, Hong, & Xu, 2004; Pradhan, 2008; Co & List, 2004; Holtbrugge & Kreppel, 2012).

1.2.3 Policy Related variables

Pradhan (2011) quoted "The policy attitude of a country is an important determinant for FDI flows". Pradhan (2011) found that host countries having liberal policy regime are likely to be more attractive to Indian and Chinese OFDI, while Buckley et al., (2007) found a contrastingly insignificant result. Policy measures used by researchers as a determinant of OFDI flows are BITs and DTTs (Das & Banik, 2015; Pradhan, 2011). BIT is Bilateral Investment Treaty for protection of investments and with provisions for equal treatment. DTT are Double Taxation Treaty for avoidance of taxation multiplicity and reduce the burden on investment income. BIT and DTT capture important linkage among home and host countries, and are important drivers of trade outflows from emerging economies to other economies (Das & Banik, 2015; Sachs & Sauvant, 2009).

2. METHODOLOGY

The study incorporates macroeconomic variables for top ten host countries for Indian outbound M&A transaction for a period of 20 years, ranging from 2000-2019. The description of the aforementioned host country variables and our dependent variable in the study is given below (Table 2).

Table 2: Description of Dependent and Independent variables

Variables	**Constructs**	**Description**	**Unit**
Dependent variable: Outward cross-border M&A	M&A Deal Volume	Number of total outbound M&A deals in a Year by Indian firms	Units
Independent Variables	Market Size (GDP, POP)	Gross domestic Product, GDP per capita and Population of a Host Country	USD Million (GDP & GDPPC) & Units (Population)
	Trade Openness (EX, IM, MER)	Free flow of trade i.e Total Exports and Total Imports	USD million (Total exports and Imports) & Percentage of GDP (Total Exports Percentage and Total Imports Percentage)
	Strategic assets (T_PAT, R_PAT)	Total patent applications filed by residents and non- residents of a country	Unit
Dummy Variables	Policy variables (DTT)	Double Taxation Treaty	0 if there was no treaty between Indian and host country in a year or 1

2.1 Panel regression model

The pooled regression ignores the cross-section effect (influence of the country specific features). The pooled regression is applied on the annual data of 10 selected host countries; it is required to introduce the cross-section effect (country specific heterogeneity) of the selected host countries. Thus, panel regression models are needed to examine the effect of country cross section effect in the regression model with the following hypothesis:

Hypothesis: "There exists no significant impact of host country macroeconomic determinants on Number of Outbound M&A deals by Indian Firms"

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There are two different methods of panel regression models to incorporate the effect of heterogeneous countries in the analysis. These panel regression models are named as *fixed effect regression model* and *random effect panel regression* models. The F test is used to examine the possibility of applying the fixed effect models.

2.2 Dynamic Panel data Analysis

In the study the dynamic effect of the dependent variable is also examined. The dependent variable is the performance of the organizations as measured with the help of Deal volume (DEALVOL). The dynamic effect of the dependent variable is also examined in order to analyze the behavior of the firms and their tendency to re-invest in a host country. Dynamic effect indicates the impact of lagged variable of the dependent variable on itself. This is also known as presence of auto correlation in the dependent variable i.e., DEALVOL. Thus, in order to incorporate the dynamic effect of the organization performance the dynamic panel data models were applied.

3. RESULTS

3.1 Panel regression model

The F test if found significant represents the presence of significant cross-sectional heterogeneity in the selected countries. On the other side, the Hausman test examines the presence of randomness in the selected countries. The results of F test and Hausman test estimated from the different panel regression models is shown below in table 3.

The table 3 reported that the cross-section F test statistic is found to be significant representing the presence of significant cross section heterogeneity in the selected host countries. The Hausman test is also found to be significant indicating that the observed cross-sectional (i.e., country) heterogeneity is not random. Thus, it is decided to apply fixed effect panel data regression model in the study. The within fixed effects model is applied assuming the DEALVOL as dependent variable and macroeconomic host country determinants as independent variable.

The results of within fixed effect regression analysis (table 4) reported that p value of the t statistic for the independent variable i.e., *Macroeconomic Determinants of Host country* is found to be less than five percent significance level except in case of population, merchandise trade, total patents applications and total patent application by residents.

Thus, at ninety-five percent confidence level that null hypothesis that *"There exists no significant impact of host country macroeconomic determinants on Number of Outbound M&A deals by Indian Firms"* can be rejected for the following variables:

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- Gross Domestic Product
- Total Exports
- Total Imports and its percentage of GDP
- Merchandise Trade
- Double Taxation Treaty

The F statistics is 23.583 indicates that the regression model is statistically fit. The R square of the pooled regression model is found to be 70.10 % which means that around 70 percent of the variance of the Outward Indian M&A deals can be explained with the help of fixed effect panel regression model.

Table 3: Fixed effect vs. random effects panel regression model (e-views)

Independent Variable	**Panel Fixed Effects**			**Panel Random Effects**		Remarks
	Test	Statistics	P value	Test	Hausman Test (p value)	
Macroeconomic determinants of Host Country	Cross-section F	4.169	0.000	Cross section random	37.527 (0.000)	Fixed effect model is finalized
	Cross-section Chi-square	37.682	0.000			

Table 4: Fixed effect regression model (e-views)

Variable	Coefficient	Std. Error	t-Statistic	F Stats (p value)	R Square
GDP	-3.50E-12	9.31E-13	-3.759**	23.583 (0.000)	70.10 %
POP	5.50E-08	7.18E-08	0.766		
EX	-2.59E-11	5.54E-12	-4.683**		
IM	4.09E-11	6.57E-12	6.235**		
MER	0.101591	0.056029	1.813**		
IMP	-0.260198	0.141583	-1.837**		
T_PAT	9.16E-08	7.89E-05	0.001		
DTT	2.444653	1.241402	1.969**		
R_PAT	0.000155	0.000168	0.925		
C	-3.788908	5.702109	-0.664		

3.2 Dynamic Panel data Analysis

Difference GMM model (Arellano Bond, 1995) is applied to examine the dynamic effect along with different independent variables influencing the deal volume. DEALVOL's lag one term is analyzed in difference GMM model. The results of the difference GMM model conducted on the STATA software is shown below in table 5:

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Table 5: Results of Dynamic panel data model (STATA)

Independent variable	Regression coefficients	Standard Error	Z Statistics	Wald Statistics (p value)	Arellano-Bond AR(1) test AR(2) test
DEALVOL. L1	0.2109	.0784	2.69**	30.48 (0.000)	AR1 test -1.6236 (0.1045)
GDP	-4.22e-12	1.14e-12	-3.69**		
GDPPC	0.00017	0.00006	2.64**		
EX	-3.39e-11	8.08e-12	-4.20**		AR2 test -1.0519 (0.2928)
IM	3.89e-11	7.98e-12	4.88**		
T_PAT	0.0001	0.000357	2.87**		
Constant	-2.9400	1.4348	-2.05**		

The results indicate that the lagged variables of DEALVOL are found to have significant impact on the dependent variable DEALVOL. Further the chosen macroeconomic host country variables (regression coefficients = 0.1038, p value= 0.000) have significant impact on the DEALVOL. The AR (1) test is found to be significant, whereas the AR (2) is found to be insignificant. Thus, it is concluded in that macroeconomic host country variables significantly influences the number of outbound M&A deals by Indian companies to the selected host countries as measured with the help of DEALVOL.

4. DISCUSSION & CONCLUSION

Host country macroeconomic factors were found to be significant determinants of Indian outbound M&A specifically Gross Domestic Product, Total Exports, Total Imports and Total Patents. Major findings of the study are:

- Gross domestic product is negatively significant in all of the above three models i.e., pooled regression model, fixed effects regression model and dynamic panel data model. The effect of GDP on DEALVOL is negative, as opposed to general theory discussed, however supportive of research by Nunnenkamp et al. (2012), where host country's market size's influence weakened over a number of years. Host country's market size appeared to have dominated outbound investing motive of Indian enterprises during the past (Gammeltoft, Pradhan & Goldstein, 2010; Uddin & Boateng, 2011; Varma & Nayyar, 2014), however it's working in a totally opposite manner now. Plausible explanations for this could be superseding saturation of markets of host economies, leaving minimal scope or making survival more challenging for new M&A businesses.
- Total exports of the host country are also negatively significant, while total imports are positively significant in the above models. This is conclusive of the fact that the areas or industries where host country is strong i.e., has a good hold and is in a capacity to export, Indian outbound M&A is lower in such industries, but industries

where the total imports are high, acquisitions by Indian firms is way higher. However, this finding offers a future research scope for outbound Indian M&A's sectoral or industrial comparison as well as composition with respect to host country's total exports and imports in each industry.

- Total patent is another variable which proved to be positively significant in the above test proving that Indian outbound M&A is motivated by strategic resource seeking motives. These studies are in line with the previous studies of Athreye & Godley, 2009; Buckley et al., 2007; Das & Banik, 2015; Makino et al., 2002; Taylor, 2002; Zhang, 2003; Warner et al., 2004; Pradhan, 2008; Co & List, 2004. Hence Indian firms acquire firms abroad to gain competitive advantages in terms of technological and strategic assets. Government policies should also aim at loosening the rules, procedures and paperwork in case of such strategic assets based outbound M&A, this will strengthen the Indian economy in terms of ownership of technological advancements and modern techniques of management.
- Significance of lagged dependent variable i.e. DEAL VOL is also suggestive of the fact that Indian firms follow a tendency to acquire businesses in those host countries where they have already had prior acquisition experience. Plausible reason for this behavior could be the confidence of investing in a host country whose demand and supply conditions, law-system, predominant business practices, the entire know-how essential to operate overseas operations, etc. is already known to Indian firms. All this establishes required background for setting up or acquiring business facilities overseas.

Policy implications can be derived from the main findings of the above research. Saturation of host economies with large markets encourages Indian companies to target host countries with small market size and explore niche markets and their underlying massive scope to make profits. Indian enterprises planning to invest abroad should incorporate absorbent and dynamic environment towards developing and adapting tech related strategic competencies as this is one of the primary ways to secure oneself in a market flooding with competitors. This can be done by reducing employee resistance well in advance via their timely training regarding updated technical know-how and, encouraging environment where employees who are upskilling themselves get rewarded. Since our findings point towards the fact that companies tend to acquire business in already familiar host countries, this can be made easier by reducing protocols related to administrative formalities when an Indian enterprise is stepping into the same host destination again. Such time and effort saving measures will not only encourage firms to undertake overseas investment but will also become more efficient in terms of generating profit and reducing costs.

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