International venturing emerging paradigms - a study of the Indian IT industry

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ABSTRACT

Cross border mergers and acquisitions is the fastest means of making an international presence for a business firm. It is a mode of outward FDI which has so far been explained best in terms of Dunning's OLI framework. The emergence of outbound FDI from the developing world however, has looked at alternate frameworks emphasizing outward orientation, leverage through building linkages and achieving organizational efficiency through integration. The study seeks to explain outbound M&A in the Indian IT industry during 2000-2006, in the changing global competitive scenario .

I. Introduction

Foreign market entry is an important strategic decision for multinational enterprises (MNEs) because of the consequences that it has for international presence. Internationalization of firms has traditionally been a process in which a firm gradually increased its international involvement.. Research on international business has continued to be dominated by Dunning's OLI framework (1973, 1993) that seemed to be adequately descriptive of the flow of FDI from developed to the developing world.

The emergence of a new breed of MNEs from the developing and transition economies in a phase of accelerated internationalization however, has resulted in interdependencies; and advancements in ICT has altered the structure of industries in such a way that the emerging global economic architecture seems more and more web like. In such a state of interdependencies, competition, whether perfect or imperfect as the framework for explanation of global commerce has become a suspect candidate. One is already talking of collaborative commerce which requires the development of alternative theoretical frameworks

In the literature of international economics, an overseas acquisition by a national firm is treated as a choice of foreign market entry mode. When the investing firm already owns a substantial and powerful bundle of ownership advantages and its sole objective is to exploit these advantages in foreign markets through production activities then the greenfield form of OFDI is a preferable strategy. However, when investing firms are motivated to augment their existing firm specific advantages they adopt acquisition as an entry strategy to secure access to valuable strategic or knowledge based foreign assets (Dunning, 1988; Cantwell, 1989).

The literature on different aspects of firm internationalization from emerging economies is at a nascent stage. In this context this paper contributes by adopting an integrated approach to analyze the motives and strategies of the IT industry's recent surge of outbound mergers and acquisitions by both large and small businesses in the light of prevalent paradigms of investment theory, international entrepreneurship and strategic management.

II. Theoretical Framework

There is a vast amount of research across different disciplines which explain different facets of firm internationalization. Traditional explanations of international firm behavior are rooted in economics and use a static framework to explain the process of internationalization in an asset exploitation perspective. The framework is characterised by a range of theoretical perspectives- from the mainstream economic theories (Hymer, 1960; Kindleberger, 1969; Vernon, 1966; Caves, 1971), and internalisation models (Buckley and Casson, 1976; 1985; Rugman, 1981) to the eclectic paradigm (Dunning, 1988a; 1988b) and the Investment development Path Approach (Dunning 1981). These models however, essentially explain MNE behaviour from the developed world.

Third World MNCs

The theory on Third World Multinationals (TWMNCs) dates back to the late seventies and early eighties (see e.g. Legraw (1977, 1981), Dunning (1981b), Lall (1983), or Wells (1983). This early literature was inspired by consecutive waves of OFDI from developing countries in Latin America, West and South Asia, and Africa in the 1970s and 1980s. The main propositions of the TWMNC literature can be phrased in terms of the OLI framework: Concerning ownership specific advantages (O), TWMNCs will tend to posses advantages that are less advanced, typically related to products in the mature phases of the product cycle (Vernon, 1966), and mainly associated with low cost production, natural resources extraction, and an ability to cater to low margin markets. Concerning location advantages (L), TWMNCs will, as a consequence of their specific O advantages, tend to focus their activities in countries at the same or lower stages of economic development (Dunning and Narula, 1996) and/or in countries with a low psychic and geographical distance (Johanson and Vahle, 1977). Concerning internalization factors (I), TWMNCs will tend to opt for joint ventures to access local market knowledge, technology and capital, thus, compensating for their inherent resource limitations (Lecraw, 1981).

Especially Lall's theory of 'localized technological change' has been widely applied. Studying Indian MNCs, Lall (1983) found that these MNCs were located in labor-intensive, low- technology sectors with low levels of differentiation. Rather than exploiting frontier technologies, the O advantages of these firms were related to their ability to change and adapt imported technology to the specific cultural, market and institutional environments of developing countries and to adapt their business models to developing country conditions (Kumar and McLeod, 1981; Wells, 1983; Lall, 1983). Thus, the success of TWMNCs rested in their ability to de-scale technologies and products (Wells, 1983) and distribute and market relatively unbranded and undifferentiated products in developing countries based on their low overheads (Lall, 1983; Lecraw, 1981).

Due to their inferior O advantages, TWMNCs would rarely compete directly with western MNCs (Wells, 1981; Lecraw, 1981, Nambudiri et. al, 1981), but would in stead invest in other developing countries (Wells, 1981). This OFDI would frequently be a defensive move made partly because tariff barriers prevented exports, partly because local entrepreneurs in export countries tried to copy the product. To the extent that investments in more advanced countries took place, it would be to support exports, e.g. of artisan products (Wells, 1981). As the O-advantages of TWMNCs were weak, their internationalization would tend to be gradual and sequentia. Through gradual internationalization, investors gained experience that provided a platform for further expansion and greater commitment. Thus, investments would mainly take place in locations with low geographical and psychic distance, neighboring developing countries that is (Beasung, 2003), and joint ventures would be common as a way to gain access to external resources such as knowledge about local markets and/or capital.

Late-comer firms

Where the traditional OFDI literature viewed OFDI from developing countries as an 'outlayer' with "marginal" significance for global economic developments (Vernon-Wortzel and Wortzel, 1988), a growing literature has recently challenged this view. Spurred by the surge in OFDI from developing countries in the 1990s, and 2000s and echoing Gerschenkron's (1962) notion of 'late-comer' advantage of 'backwardness', this literature is interested in explaining why growing numbers of developing country firms are successful in competing with western firms in their own markets. Are there, this literature asks, some particular advantages of being 'late-comer' that explain the rise of developing country MNCs?

The literature on late-comer firms dates back to the late 1980s, when the success of especially Asian OEMs to upgrade technology and move into more advanced activities generated growing interest (Vernon-Wortzel and Wortzel 1988; Cantwell and Tolentino 1990). Apparently, a handful of developing countries had moved through an advanced transformation of their industrial structures, which, inter alia, had lead to the emergence of powerful MNCs (Cantwell and Tolentino, 1990). This literature diverted from the aforementioned TWMNC theory by stressing the ability of developing country firms to compete on par with developed country firms, but "at the same time, its logic reflects the unique aspects of Third World outward investment" (Beausang**,** 2003; 32) that had been analyzed by the TWMNC literature.

Postwar globalization in the 1980s and 1990s thus was a phase of accelerated internationalization in which many small firms made their global presence felt, bringing into existence a new species of MNEs referred to as the "infant multinationals"(Lindqvist 1991) or the "micro-MNES" (Hedlund 1993; Dimitratos *et al* 2003; Ibeh *et al* 2004). These include small or medium sized firms that originated from the advanced industrial countries but attacked the world market with such vigour and with such innovative strategies of integration that they came be classified as 'newcomers'.

Recently emerging theories focused on MNE activity from EM economies have their roots in strategic management (Mathews 2002, 2006), network analysis (Johanson and Vahlne 1977, 1990; Johanson & Wiedersheim – Paul 1975) and international entrepreneurship literature (Mathews and Zander 2007). Besides, one also witnessed the emergence of a new class of MNEs known as the 'born globals', 'global start ups' or 'international new ventures' (Rennie 1993; Oviatt and Mcdougall, 1994, 1995, 1997, 1999; Bloodgood et al 1996; Kohn 1997; Madsen and Servais, 1997; Knight and

Cavusgil, 2004 and Rialp 2005); firms which bypassed internationalization as a process and began operation as global players from day one.

The emergence of the new species of MNE in the phase of accelerated internationalization has led to the development of a more dynamic resource based view of the process of internationalization in an asset augmenting or asset seeking perspective combining strands of strategic management and international entrepreneurial approaches to already existing literature. Explanations of firm internationalization from an emerging economy perspective we feel, needs an integrated interdisciplinary approach combining elements of asset exploitation with asset augmentation to explain this newly emerging complex phenomenon.

Thus, the discourse on firm internationalization has undergone successive *avtars* to accommodate emerging realities of the process of globalization

III. Review of Literature

Traditional Approach

According to traditional FDI theory, FDI is closely related to the ownership-specific/competitive advantages of the investing firms (Hymer, 1976; Dunning, 1981a; Dunning, 1988). Ownership-specific advantages play two roles:

First, they are the reason why firms invest abroad in the first place. Thus, firms must possess some unique advantages (technological, managerial, reputational, etc.) that they can exploit in foreign locations.

Second, the possession of ownership specific advantages explains why MNCs are able to overcome the 'disadvantages of foreignness' vis-à-vis indigenous firms. These disadvantages are related to problems of obtaining market intelligence, access to authorities, and access to factor markets, as well as to the costs of managing across borders.

Industrial Organisation Approach. Early formulations of the theory of multinational advantage, developed by Hymer (1960, 1968, 1976) and Kindelberger (1969) focused on the means through which the MNE could mobilize its unique capabilities and trans–border assets to overcome perceived operational and informational deficiencies with respect to domestic rivals. It was through the possession of such *proprietary resources* and *capabilities* that the MNE could generate a monopolistic or competitive advantage over indigenous firms in the host country and, at the same time, offset the disadvantages of operating in a foreign country.

The Transaction Cost approach pioneered by Coase (1937) and generalized by Williamson (1979) viewed internationalization as an organizational response to imperfections in the intermediate goods, knowledge and capital markets. They argued that firms use internationalization to minimize market transaction costs by internalizing transactions and other interdependent economic activities across borders (Buckley and Casson 1976; Rugman, 1981; Hennart 1982). Thus, the 'internalization theory' of FDI (Buckley and Cassson, 1976; Hennart, 1991) argued that when firms extend their activity to foreign locations, it is not only because they are monopolistic rent seekers as argued by the ‘Hymer – Caves – Kindleberger tradition’, but also, and especially, because they are efficiency seekers that want to reduce transaction costs of cross border activity. The transaction costs are for instance monitoring costs, bargaining costs and enforcement costs and they derive from the opportunistic nature of market agents and the uncertainty and asset specificities associated with transactions. Especially in markets for intermediary products and intangibles, market failures are widespread and therefore internationalization will be particularly common when transacting such goods.

The Eclectic Paradigm. Dunning’s (1973, 1993) eclectic ownership-location-internationalisation (OLI) theory of multinational activity has been the most influential and dominant explanation for international production in the 1970s and 1980s. The ideas of the market power and transaction cost schools were sought bridged by John Dunning’s OLI framework (Dunning, 1981, 1988) which essentially holds that FDI is a result of firms possessing ownership-specific advantages (O) that they want to exploit in foreign locations (L), which they cannot (profitably) do except through internalization (I). Dunning refined the possession of proprietary resources and capabilities into asset based ownership advantages which are realized from structural market imperfections and transaction based ownership advantages which are realized from transaction imperfections. Dunning’s theory of firm specific advantages (FSAs) explains the outward venturing of large well established firms from mature markets but does not really capture new firm formation and early development processes of firms from emerging markets
In the light of the emergence of alliance capitalism and technological advancement, Dunning (1995) re-specified the ownership advantages to include both internally generated capabilities and competence to seek assets with other institutions with which they have ongoing cooperative relationships. Recently Dunning (2006) incorporated a dynamic perspective in the OLI paradigm by acknowledging that location advantages at time *t* may affect ownership and internationalization advantages at time *t+1,* and the accumulated ownership advantages will subsequently influence the location choice.

The earliest MNEs from the US and Europe operated in a regime of increasingly protected and closed markets, and were constrained to produce mini-versions of themselves as more or less self contained and strategically independent national subsidiaries. They competed side by side with a number of domestic players, protected by tariff barriers and other impediments to competition and the transfer of goods across national borders. Theoretical development emphasized the importance of market imperfections, adding advantages of multinationality related to discriminatory pricing, transfer pricing schemes and arbitrage across different tax regimes.
The theory of FDI has thus largely been developed based on experiences of firms from USA and Europe. Thus, the theory is less suited for analyzing MNCs coming out of locations where O-advantages are weak and where widespread market and institutional failure radically changes the context of FDI. Hence, there are “inevitably gaps” in the traditional FDI literature, when it comes to explaining OFDI from developing countries (Buckley et al, 2007), as OFDI from developing countries remains “a relatively neglected topic” in the literature on FDI (Bonaglia et al., 2006). Nevertheless, we will argue that there are in fact a number of theories and frameworks that can help us understand OFDI from developing countries.

The Investment Development Path (IDP) (Dunning 1981) postulates that as countries become more industrialized or developed – with a parallel advance in their industrial and service sectors – their firms are likely to build up firm specific advantages and compete more effectively at the international level. Compared to developed country TNCs at a similar stage of development many developing country TNCs appear to be investing overseas at a very early stage.(WIR 2006) It has therefore been increasingly argued that there should be alternative theories which explain firm internationalization from developing and transition countries

The **Upsalla Sequential Internationalisation Process Model** (Johanson and Vahlne 1977, 1990; Johanson & Wiedersheim – Paul 1975) explains internationalisation as a sequential learning process. **The Network Perspective** of internationalization explains the process of firm internationalization as a result of learning through gradual increases in international involvement. The **Upsalla Sequential Internationalisation Process Model** (Johanson and Vahlne 1977, 1990; Johanson & Wiedersheim – Paul 1975) and the **Network Model** (Johanson and Mattson 1988) both explain international involvement as a sequential learning process based on increasing experiental knowledge. Based on the theory of growth of the firm (Penrose 1959) and the behavioral theory of the firm (Cyert and March 1963; Aharoni 1966) the core idea behind this process model is that a prerequisite for international operations is the development of both objective and experiental knowledge of international markets and the development of capabilities based on it

Modern Approach. The continued strengthening of the trend of FDI in the reverse direction since early 1990s has necessitated the development of alternative frameworks for explaining this phenomenon. From the perspective of understanding outbound FDI and M&A from the "other side" generally, and from the view point of India particularly, it is appropriate that we review these frameworks as well.

The **LLL(Linkage, Leverage and Learning**) framework developed by Mathews (2002, 2006) is an alternate explanation for the increasing emergence of MNCs from developing countries. He explains the rapid emergence of the "latecomer firm" in the 1990s in terms of prior linkages developed in the global economy which firms leverage through experiential learning and gain a foothold in the interconnected global network. Other studies using the resource based or dynamic capabilities perspective (Chang, 1995; Guillen 2002,2003) also use a similar logic of incremental learning in the international expansion of Japanese and Korean business groups.

The International Entrepreneurial Framework is a complementary tool that explains the internationalization strategies of the newly emerging MNCs /MNEs. The newly emerging MNC includes small or medium sized firms- "infant multinationals" (Lindqvist 1991) or "micro-MNEs"- (Hedlund 1993, Dimitratos etal 2003; Ibeh etal 2004) that originate from the advanced industrial countries but attack the world market with such vigour and innovative strategies of integration that they are dubbed as "newcomers".

Examples of these are Dutch foodstuffs firm Nuterco, or the US based CMS Energy, which became a global energy giant within a decade.

Network Perspective. Proponents of this approach claim that internationalisation is not necessarily sequential and can be gained by other firms (Eriksson, Johanson, et al 1997, Turnbull 1988), by **networking** with others (Mattson 1985, Johanson and Mattson 1986). (Eriksson, Johanson, et al 1997. While the gradual development of market knowledge is dependant on learning from other firms in the network, firms in emerging markets often use links to a parental network as an important resource for this.

Asset Augmentation Perspective. The asset augmentation perspective (Wesson 1999; Mathews 2002, 2006; Li 2003) recognizes reasons other than asset exploitation for internationalization of firms. Chen and Chen (1998) employed a strategic linkage theory and network approach to explain how FDI is used as a strategic means for small and weak firms to access resources that investors do not possess. Similarly Pananond and Zeithaml (1998) emphasized the necessity for third world multinationals to maintain a balance between exploiting existing resources and accumulating new competencies. Makino et al (2000) adopted organizational learning and asset seeking perspectives to argue that firms from newly industrialized countries engage in FDI not only when they possess FSAs for asset exploitation but also when they intend to seek technology based resources and skills that are not available in the home country environment.

Springboard Perspective. Using the springboard perspective (Luo and Tung 2007) explain the systematic and recursive behaviour of firms to acquire critical resources to compete against both domestic and global rivals in the international market.

Leapfrogging Perspective. It is similar behavior used by late entrants to catch up with the competitive position of early movers while avoiding the risks of technological obsolescence and proprietary technology diffusion to rivals as well as the extra burden of educating a changing market. (Dore 1990; Anderson and Engers, 1994).

Enabling Policy Regime Perspective. Svetlicic (2004) evaluates the recent outward expansion of selected central European firms and compares it with the experiences of the third world multinationals. The importance of the institutional context for firms from countries such as India and China where government policies provide the supporting structure is emphasized by Dunning and Narula (1996). Pradhan (2004) also emphasises the importance of policy changes in the 1990s as a facilitating factor in his analysis of outbound investment activity of the Indian manufacturing industry and uses the framework of the National Innovation System to examine the outward investment activity of the Indian Software industry (2007) . Kumar (2006) uses logit analysis to examine the outward investment decision of the Indian manufacturing industry in the OLI framework. Kale (2007) explores patterns and motives for internationalization by the Indian Pharmaceutical industry using case studies.

IV. The Emerging Indian Multinational

The story of the emerging Indian multinational is both dynamic and complex, propelled by competition and opportunity, encouraged by changes in the internal policy regimes with increasing globalization acting as the chief facilitator. The 1990s represent a structural period in the emergence of Indian FDI with an absolute upward shift in the quantum of outward investment, numbers of approved FDI applications and numbers of outward investing Indian firms. Prior to this outbound FDI was insignificant due to the inward looking protectionist regime. Indian outbound FDI has undergone long - term transformations in its character covering industrial structure, geographical composition, ownership controls, entry modes, motivations, and sources of financing. The role of cross - border direct investment as a key strategy for the internationalization of Indian firms was quite limited prior to 1991.

Historically speaking outbound investment is not a new concept for the Indian business firms and firms from the similar settings. Mafatalal Textiles invested in a cotton spinning operation in Uganda, Birla invested in Africa in the 1950s and in South East Asia between 1965-1981. In the early 1960s Tata and Kirloskar expanded their activities in Africa and Srilanka. However such endeavours were too few and far between to be labeled as a phenomenon. The research on the beginnings of the outward FDI by firms in India (and Brazil, Indonesia, Mexico) by Kumar and Mcleod, 1981; Lall, 1984 Lecraw, 1977 shows that developing country multinationals invested abroad based on firm specific advantages in product and process technologies that suited conditions in the host countries in which they invested. They competed on price rather than product differentiation, normally utilising smaller scale, more labour intensive and more flexible technologies than did other MNEs (Lecraw, 1993). These studies indicated that MNEs from developing countries were at a disadvantage compared to MNEs from developed countries. These disadvantages included outdated technology, personalised management systems and limited knowledge of overseas markets.

Outbound FDI from India started assuming the proportion of a phenomenon since 2000. In 2005, it was for the first time that there were more Indian companies buying foreign assets than foreign companies buying Indian assets. India Inc. spent out more than $ 3.5 billion by acquiring stakes in 104 companies abroad. In the first nine months of 2006, for example, Indian companies announced 115 foreign acquisitions with a value totaling $7.4 billion, which is roughly a seven-fold increase from 2000.The reforms undertaken since 1991 in India have unleashed the potential growth of the economy and stimulated international trade, outsourcing and FDI. At the same time, some Indian firms have become global players.

An analysis of the major drivers of M&A activity point towards a combination of four factors: Means, motive, confidence and opportunity. Indian firms have become increasingly profitable over the years as a result of a booming economy, giving them access to more capital than ever before to fund their outbound activities. The Indian corporate is cash rich and can borrow sizable amounts of cash on account of being underleveraged and not having too much debt. This is then deployed in acquisition of firms abroad.

Since FDI is policy driven the systematic opening of the economy has provided necessary opportunity to Indian firms for their overseas acquisitions.. There has been a substantial liberalization of the cap on the overseas investment by Indian corporates from 100% of net worth to 200%, up to 300% at present. Regulatory changes such as the WTO rules governing quotas on the imports of textiles into developed countries which were lifted in 2005, sparked an increase in the ability of Indian firms to produce apparel for non- Indian markets.

Corporate India is more confident and has realized that taking on risks can be their chief pathway to growth. The outsourcing phenomenon also helped increase the confidence of Indian managers as it exposed them to western companies and management practices; establishing India's credentials as a reliable source of low-cost yet high quality products and services in the eyes . Further to this, there has to be a self-perception of the desirability as well as feasibility of foraying into the economies abroad.

Table 1
Temporal Distribution of Indian M&As Abroad

Year of Acquisition	Count	Percent
2000	20	7.66
2001	8	3.07
2002	14	5.36
2003	32	12.26
2004	50	19.16
2005	103	39.46
2006	34	13.03
Total	261	100.00

Destinations of Indian Mergers & Acquistions

The M&A deals covered in this study span all the six continents, and extend to over 50 countries. Whereas Annexure I profiles the countries to which India Inc.'s M&A activity extends to table 2 and figure 1 present the geo economic profile of Indian M&A abroad..

Table 2
Geo-Economic Profile of Indian M&As Abroad
(2000-2006)

Region	Count	Percent
Europe	**108**	**41.53**
European Union	98	37.69
South East Europe	3	1.15
CIS	3	1.15
Other Developed Europe	4	1.54
Asia	**32**	**12.30**
South East Asia	16	6.15
West Asia	4	1.54
Oceania	2	0.77
China	7	2.69
East Asia	1	0.38
South Asia	2	0.77
North America	**83**	**31.92**
USA	78	30.00
Canada	5	1.92
Latin America and Caribbean	**12**	**4.61**
South America	9	3.46
Central America	2	0.77
Caribbean and Other America	1	0.38
Africa	**13**	**4.99**
North Africa	7	2.69
West Africa	1	0.38
Southern Africa	4	1.54
East and Central Africa	1	0.38
Australia	**12**	**4.62**
Total	**260**	**100.00**

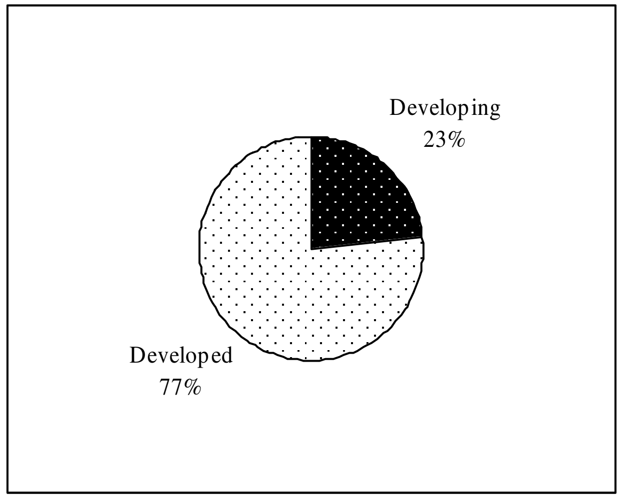

Figure 3
Economic Status of the Destination Countries

Geographical Composition

Overseas acquisitions by Indian multinationals in majority cases have been directed at the developed parts of the world economy. Developed countries as a group accounted for 77 per cent of the total number of acquisitions made by Indian firms during 2000–06. Within the developing region, North America and the European Union with 32 and 38 per cent have been the most attractive locations for Indian firms' acquisition activities. Developing region and Central and Eastern Europe respectively account for just 20 per cent and 4 per cent share in the same period. Asia and the Pacific is the most active developing region for acquisition with more than 12 per cent share in total number of acquisitions. It seems that the developed countries with their large markets and strong base of intangible assets seem to be the more preferred destinations for Indian multinationals than their developing counterparts.

Sectors Creating the Stir and Sectors Joining the Bandwagon

IT and Pharmaceutical sectors seem to be spearheading the Indian M&A juggernaut overseas followed almost equally by Mining and Oil & Natural Gas Exploration and FMCG. Metals & Forgings, Auto components and Automobile sectors seem to be telling another tale of the kind of renaissance the Indian manufacturing sector has been undergoing since the WTO era. Do all these sectors convey the same causality? Certainly not as Table 3 would show.

Table 3
Sectoral Profile of Indian M&As Abroad

2000-2006

Sectors	Count	Percent
Banking and Financial Services	5	1.92
Hospitality	3	1.15
IT	72	27.59
Telecommunications	3	1.15
Mining and Oil & Natural Gas Exploration	27	10.34
Paper, Packaging and Printing	3	1.15
Metals and Forgings	10	3.83
Auto components	15	5.75
Automobile	11	4.21
Engineering & Capital Goods	2	0.77
Chemicals & Fertilizers	16	6.13
Pharmaceuticals	61	23.37
FMCG	8	3.07
Others	25	9.58
Total	261	100.00

The acquisition spree from India has been largely led by Indian firms from the information technology (IT) and IT enabled services (ITES), accounting for 72 per cent of overseas acquisitions in number. The high rate of overseas acquisition activity of IT and ITES firms is being propelled by the need to have a local presence in the overseas markets for effective exports of software and related services. Acquisitions not only facilitate Indian companies to gain an existing market presence in their main markets but also helped them to secure skilled manpower, new areas and technologies. IT and ITES acquisitions has been growing complex with emergence of new areas of activities like healthcare, insurance, banking, mortgage, transportation and logistics, telecommunication, business service, education, anti - money laundering, fraud detection and other areas.

The Indian pharmaceutical industry has emerged as the second largest overseas acquirer with 61% acquisitions under its belt. These Indian firms have accumulated significant technological strength in developing new processes and drug delivery systems under a soft patent regime but continued with inadequate capability of product developments till recently. However, with the strengthening of global patent regime of late and the growing criticality of access to new products for the long term viability of growth, these Indian firms have no choice but to aggressively acquire new products and R&D bases in developed countries.

As the overseas acquisitions done by manufacturing multinationals from India tend to concentrate in industries that are at the frontiers of technological developments in developed countries, this pattern is consistent with the strategic asset‐seeking nature of Indian firms. It appears that Indian firms from knowledge‐based industries are increasingly finding acquisition a better strategy to access ownership advantages create in developed countries to complement their own competitive asset bundles to compete in global markets.

V. Indian Software Industry -

The first known case of Indian IST OFDI can be traced back to the Indian computer hardware company Hindustan Computers Limited (HCL). On 10th December 1979, HCL entered into a joint venture with Far East Computers Limited to manufacture micro and mini computers in Singapore. This was the post‐IBM period in the evolution of Indian IST industry when a number of Indian companies came into being as a response to the import substituting policy being followed towards computer hardware segment. This first mover advantage of HCL in computer hardware industry led to the first ever internationalization drive by an Indian IST company. HCL was followed by two other oldest Indian IST companies to undertake OFDI for foraying into overseas market. DCM Data Systems Services Private Ltd. entered into an overseas joint venture for marketing software in Baharain on 5th May 1983 and Hinditron Computers System Private Ltd. established a wholly owned subsidiary in USA on 10th January 1983. These three Indian companies were at their pinnacle in the late 1970s and 1980s with strong capability to manufacture microprocessor based computers and required computer software. Given these capabilities it is no surprise that they led the internationalization of Indian IST industry in that period.

In the late 1980s, HCL Overseas Ltd. and Infosys Consultants Private Ltd. undertook one OFDI project each directed at the USA. Both these projects were for development of computer software. The real break in the trend of Indian IST OFDI took place in 1991 with an increasing number of Indian firms undertaking overseas investment project compared to the past. In 1991 there are cases of three overseas joint ventures and two overseas wholly owned subsidiaries undertaken by five Indian IST companies[1]. The total OFDI approvals for Indian IST increased to seven in 1992—four joint ventures and three wholly owned subsidiaries. In 1996, the approved IST OFDI was estimated to be 46 comprising 9 JV and 37 wholly owned subsidiaries. The increasing tendency of Indian IST firms to have complete control over their overseas operation is similar to the behaviour of Indian manufacturing firms in 1990s (Pradhan, 2005, 2007).

As Indian hardware companies started losing their competitive advantages because of their inability to innovate according to fast changing demand conditions and uncertainty in

[1] These outward investing companies are Computer Aided Learning Systems Private Ltd. KEI Systems P. Ltd. each undertaking a JV in Russia, Hinditron Services and International Computer Ltd. each establishing a wholly owned subsidiary in USA, and Tata Consultancy Services entering into a JV in USA.

public policy in India as well as abroad the cases of OFDI by hardware companies went into oblivion in late 1990s. Indian software companies that benefited from a suitable NIS system maturing in India largely led the Indian IST OFDI. The liberalization of OFDI policy in 1990s and early 2010s has facilitated the emergence of Indian IST multinationals by relaxing policy led barriers to undertake trans − border investment activities (Pradhan, 2007).

The Indian software firms initially served merely as providers of manpower to be expatriated to the firms elsewhere. Time and cost arbitrage ensured that the IT industry sector were to become became off-shore centers where efficiency mattered. And subsequently it grew vertically toward product development. The firms enriched in cash by providing manpower and in-sourcing found in customer acquisition the sustainability of revenues and profitability; while other players relied on the acquisition of products to move in the hierarchy of capability maturity.

An increasing number of Indian enterprises are beginning to see outward investment as important aspects of their corporate strategy and are emerging as multinationals in their own right. There has been a sudden spurt in cross border M&A activity since 2000, the scale and momentum of which continues unabated. The next section examines the motives of cross border acquisitions of the IT industry.

Why do Indian IT companies opt for M&A?

The basic rationale for firm internationalization is to increase or protect profitability and /or capital value through exploiting existing competitive advantage or safeguarding, increasing or adding to them. (UNCTAD 2004) In this context **motives** for cross – border M&As may be summarised in a taxonomy originally devised by Behrman (1972). The taxonomy identifies four types of multinational enterprise (MNE) activity viz. the resource seekers, the market seekers, efficiency seekers and strategic asset or capability seekers.

The Synergy factor

Efficiency seeking M&A activity aims to take advantage of different factor endowments, economic systems, policies and market structures to concentrate production in a limited number of locations. Efficiency gains are the result of synergies – both static and dynamic in cross border M&As.

Static synergies include the pooling of management resources, revenue enhancement by using each others marketing and distribution networks, purchasing synergies, economies of scale in production leading to cost reductions and the avoidance of duplication of production, R&D or other activities.

Dynamic synergies involve the matching of complementary skills and resources to enhance a firm's innovatory capabilities with a long term positive effect on sales, market shares and profits.

Many companies have undertaken M&A to grow in size by adding manpower and to facilitate overall expansion. The Polaris-OrbiTech merger saw a spurt in the merged entity’s revenues from $60 million to $125 million. The merger also added 1,400 employees to Polaris, taking the total employee strength to 4,000.

Similarly, for Bangalore-based vMoksha Technologies, the logic behind the acquisition of two US-based companies, Challenger Systems and X media, was to increase in size by widening its customer base. Pawan Kumar, chairman and CEO of vMoksha Technologies says, “The size of a company does matter when interacting with customers and clients. These acquisitions added 120 people to our staff.”

The acquisition of China-based Navion software helped Mphasis BFL increase its employee strength by 85 people and expand its business in the region. Similarly, when software services giant Wipro acquired BPO player Spectramind, it helped the company expand into the BPO space.

In the same vein, Bangalore-based Mascot Systems’ acquisition of US-based eJiva and Hyderabad-based Aqua Regia enhanced the company’s value proposition and made it globally competitive. With the acquisition of eJiva and Aqua Regia, the total employee strength of Mascot Systems increased from 1,700 to 2,000.

The need for skill set enhancement is a manifest reason for companies to merge and make new acquisitions. The Polaris-OrbiTech merger helped in combining skill sets of both companies, which in turn led to growth and expansion of the merged entity. While Polaris Software was looking for a specialised product suite, OrbiTech was looking forward to efficient marketing and service support for its products. Post-merger, Polaris got the Orbi suite framework and combined it with its service expertise to win more customers. After the merger, Polaris has become a large, specialised company in the banking, financial services and insurance (BFSI) space, offering solutions, products and transaction services. Polaris has had some recent post-merger wins, including ABN-AMRO Bank, Kuwait Commercial Bank and Deutsche Leasing.

Wipro acquired GE Medical Systems Information Techno-logy (India) to leverage its specialisation in the health science domain. The intellectual property that Wipro acquired from the medical systems software company provided it with a platform to expand its offerings in the Indian and the Asia-Pacific healthcare IT market. Similarly, when Wipro acquired the global energy practice of American Management System and the R&D divisions of Ericsson, it acquired skilled professionals and a strong customer base in the areas of energy consultancy and telecom R&D.

vMoksha Technologies’ acquisition of two US-based companies helped it to increase its size, and leverage on the expertise of the acquired companies. Says Kumar, “One of the acquired companies is very strong in banking and we leveraged this factor to gain some good banking customers.”

Likewise Bangalore-based Mascot Systems was benefited by the technical expertise of eJiva and Aqua Regia, the two companies it recently acquired. The acquisition also helped

Mascot to extend its offerings through a portfolio of complementary services, technologies and skills.

The **strategic asset seekers** may engage in cross border M&As as a means for sustaining or enhancing their international competitiveness. Merging with or acquiring an existing company is the least cost and sometimes the only way to acquire strategic assets such as R&D or technical know how, patents, brand names, local permits and licences and supplier and distribution networks, because they are not available elsewhere in the market and they take time to develop. Such assets may be crucial to increase a firm's income generating resources and capabilities (Dunning 2000).

Polaris Software had six major customer wins after it acquired the Intellectual Property Rights (IPR) of OrbiTech's Orbi suite framework of banking solutions. vMoksha also saw a rise in the number of its customers (four new customers) due to acquisitions as it expanded considerably in the US market and leveraged on the existing customer base. Mphasis also added new customers in the Japanese and Chinese markets after the acquisition of Navion.

The desire for risk reduction through product or geographical market diversification is another motive for cross border M&As. Firms may undertake to merge or acquire across borders on the basis that industry returns across economies may be less correlated than within an economy (Vasconcellos and Kish, 1998). As intensified global competition and rapid technological development have led firms to focus on their core activities, the need for product diversification has become less important (Morck and Yeung 1999), although geographical diversification plays a role.

Many Indian companies have carried out acquisitions and mergers to expand their reach in international markets and to spread across different geographies.

Mphasis BFL, through its acquisition of Navion software wants to expand its operations into the Chinese and Japanese markets. Ravi Ramu, Mphasis BFL's group chief financial officer of says, "The need for developing a near-shore centre for the Japanese market triggered this acquisition. Besides this, we plan to tap the skilled labour force in China to improve our prospects in the region. We also plan to tap the local market at a later stage and use the Chinese base as an alternative centre for our offshore services in the region."

Similarly, vMoksha Technologies after acquiring the two US-based companies has cemented its base in the US market and plans further expansions from here. Adds Kumar, "With the acquisitions, we also expanded our reach in the US market besides India. Since the majority of workforce in the acquired companies was Indian, integration was much easier and smooth"

V. Conclusion

In the above background, the increase in overseas acquisitions by Indian firms can be seen as their response to a globalized competition since 1990s. With liberalization and changes in trade, industry, foreign investment and technology policy regime, previously protected Indian companies are exposed to global competition at once. Indian firms increasingly realized that their existing technological and other capabilities accumulated with predominant dependence on protected home markets and under the import substitution policy regime of the past were clearly inadequate to cope with this new competition unleashed by a more liberalized business environment. This forced them to improve their competitive strength immediately and enlarge their position in the world markets. Indian companies realized that adopting a long term competencies building strategy with large investment in R&D, advertising, etc was relatively more risky and costly than pursuing the route of overseas acquisitions.

The motives for the outbound M&As by the Indian IT industry, seem to lend credence to the convergence of the theoretical strands of analysis. Driven by competitive pressures, the Indian IT industry is looking eager to buy customers and efficiency gains. At the same time, there are players within the industry that have chartered for themselves the route of product/service diversification and the movement up the capability maturity/ value-chain. The diversity of the motives is indicative of the broadbased nature of the Indian IT industry and the peculiarities of the imperatives for survival and competitiveness in the different segments. For the service providers, the deal lies in acquiring customers and efficiency gains and of late vertical moment toward knowledge processes. For the developers the success mantra seems diversification of product portfolios. Moreover, the newer, the younger firms seem typically as demonstrating substantial aggressiveness and thoroughness as regards both, product as well as market portfolios.

While the analysis in this paper is restricted to examining the overall tenor of the overseas M&As by the Indian IT industry, there is a prima facie case for examining M&A behaviour from temporal and spatial perspectives as well as from the perspective of firm-characteristics such as age, size, prior experience in international trade and so on. The field of research in M&As is clearly wide open.

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