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Reddy, Kotapati Srinivasa

Indian Institute of Technology (IIT) Roorkee

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Why do Cross-border Merger/Acquisition Deals become Delayed, or Unsuccessful? – A Cross-Case Analysis in the Dynamic Industries

Kotapati Srinivasa Reddy

Indian Institute of Technology (IIT) Roorkee,
Department of Management Studies, Roorkee – 247667, Uttarakhand (Republic of India).
E-mail: cssrinivasareddy@gmail.com

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Abstract

The purpose of this paper is to analyze three *litigated* cross-border inbound acquisitions that associated with Asian emerging market-India, namely Vodafone-Hutchison and Bharti Airtel-MTN deals in the telecommunications industry, and Vedanta-Cairn India deal with oil and gas exploration industry. To do so, we adopt a legitimate method in qualitative research, that is, case study method and thereby perform a unit of analysis and cross-case analysis. We suggest that government officials' erratic nature and ruling political party influence were more in foreign inward deals that characterize higher bid value, listed target company, cash payment, and stronger government control in the industry. Importantly, the liability of foreignness and liability of localness was found to be severe in Indian-hosted deals that describe higher valuation, cash payment and dynamic industry. We eventually propose implications of mergers and acquisitions for extractive industries thus to enhance productivity and improve welfare measures during post-integration phase.

JEL Classification: G34

Keywords: Cross-border mergers and acquisitions; Foreign direct investment; Oil and gas exploration industry; Telecommunications industry; Institutional theory; legal and regulatory framework; Internationalization.

1. Introduction

A thoughtful idea, well-designed policy approach of liberalization and globalization of international monitoring organizations has high impact on economic performance and dynamic industries in developing and transition economies. In particular, the market for corporate control activities such as mergers and acquisitions (M&A) at the global level has seen a significant change both in frequency of deals and value of transactions all over the world, especially after 2000. For instance, number (value) of cross-border M&As has markedly increased by 206% (875%) from 3,460 (US$98.38 billion) in 1990 to 10,576 (US$959.34 billion) in 2000, then 12,199 (US$1,045 billion) in 2007, after declining to 8,624 (US$348.75 billion) in 2013. While referring to dynamic industries, we observe a similar trend in sampling sectors, namely mining, quarrying and petroleum, and information and communication. In case of mining, quarrying and petroleum sector, number (value) of cross-border inbound M&As has significantly increased from 204 (US$7 billion) in 1990 to 1,026 (US$147.64 billion) in 2011, then turned down to 625 (US$60 billion) in 2013. For instance, in the crude petroleum and natural gas segment, Petronas Carigali- a Canadian company acquired Progress Energy Resources for US$5.4 billion; CNOOC Canada Holdings bought 100% shareholding in Nexen Inc for US$19.1 billion; and OMV AG- an Austrian company acquired a 19% shareholding in Norway-based Statoil ASA-Gullfaks Field for US$3.2 billion. While, in the case of information and communication sector, number (value) of cross-border inbound M&As has appreciably increased from 205 (US$11 billion) in 1990 to 1,806 (US$414 billion) in 2000, thereafter it has seen rise and decline, and reached to 734 (US$31 billion) in 2013. For example, in the telephone communications, Japan-based SoftBank Corp bought a 78% stake in US-based Sprint Nextel for US$21.6 billion (UNCTAD, 2013, 2014). As explored in earlier studies, the market for international trade and direct investments all over the world has seen a depressing trend due to recent global financial crisis and its adverse effect on border crossing business transactions and trade relations. Though, emerging market enterprises have taken advantage of the lower asset valuations and thereby opened a market for outbound acquisitions (e.g., Reddy, Nangia, & Agrawal, 2014b).

However, we found that cross-border transactions involving emerging markets often delay, litigate, or invite government and political influence. In a recent study, Zhang, Zhou, and Ebbers (2011) mentioned that 32% (210,183) of acquisition attempts have uncompleted during 1982-2009 period (p. 226). Indeed, these facts and experiences have motivated many researchers in strategy, international business and corporate finance. For instance, earlier studies performed in different institutional settings suggest that not only deal- and firm-specific factors and home-host country bilateral trade relations but also host-country specific attributes such as quality of institutional and regulatory framework, accounting reporting and investor protection, macroeconomic indicators, financial markets development, border tax policies, government and bureaucrat's behavior, political influence, physical distance and cultural factors have significant impact on cross-border merger/acquisition deals completion (e.g., Alguacil, Cuadros, & Orts, 2011; Barbopoulos, Paudyal, & Pescetto, 2012; Blonigen, 1997; Bris & Cabolis, 2008; di Giovanni, 2005; Erel, Liao, & Weisbach, 2012; Ezeoha & Ogamba, 2010; Francis, Hasan, & Sun, 2008; Hebous, Ruf, & Weichenrieder, 2011; Huizinga & Voget, 2009; Hur, Parinduri, & Riyanto, 2011; Pablo, 2009; Rose, 2000; Rossi & Volpin, 2004; Scholes & Wolfson, 1990; Schöllhammer & Nigh, 1984, 1986; Uddin & Boateng, 2011). In addition, recent studies have emphasized on economic nationalism and institutional role in approving cross-border deals include direct investment, mergers, acquisitions, joint ventures and private equity proposals, particularly in emerging markets (e.g., Ferreira, Santos, de Almeida, & Reis, 2014; Meyer, Estrin, Bhaumik, & Peng, 2009; Reis, Ferreira, & Santos, 2013; Serdar Dinc & Erel, 2013; Xu & Meyer, 2013). In fact, emerging economies like Brazil, Russia, India, China, South Africa, and other European regions provide a unique setting for various reasons include testing extant theory and building new theory (e.g., Bruton, Ahlstrom, & Obloj, 2008; Peng, Wang, & Jiang, 2008).

Motivated by these factors, we analyze three *litigated* cross-border acquisitions that hosted by Asian market-India, namely Vodafone-Hutchison and Bharti Airtel-MTN deals in the telecommunications sector, and Vedanta-Cairn India deal with oil and gas exploration industry. In other words, this paper will provide answers to the following research questions. Do host country financial markets and institutional guidelines (e.g., open offers program, dual listing, and international taxation) favor international acquisitions? Do host country regulatory or statutory authorities adversely behave in foreign transactions such as FDIs and M&As. Do host country politicians (e.g., ruling political party) interfere in overseas investment transactions? Does host country weak institutional laws' relating to investor protection and taxation affect its sovereign revenue, and acquirer/target firm in unsuccessful overseas inbound deals? To accomplish this goal, we adopt qualitative case study method both for deep understanding about deals happening in emerging markets and for adding new knowledge to the existing literature on cross-border M&As. The unit of analysis and cross-case analysis of sampling cases would benefit not only researchers in management but also help multinational managers participating in overseas deals particularly refer to dynamic industries such as oil and gas exploration, mining, information and communications, automobile, pharmaceuticals, chemicals, metals, electrical and electronic, and finance and banking institutions.

The remainder of the paper is organized as follows. Section 2 presents review of the literature addressing cross-border M&As for various reasons. Section 3 describes research design that refers to multi-case approach, selection criteria and sampling cases. Section 4 discusses analysis of sampling cases. Section 5 illustrates a cross-case analysis. Finally, Section 6 concludes the study.

2. Review of the literature

A merger/acquisition occurs between two local firms is referred as a domestic merger, because the transaction has closed within the territory of a country. Conversely, a merger/acquisition occurs outside the territory of a country is defined as an offshore deal. In recent times, the success or failure of an international acquisition has attracted the attention of scholars in both developed and developing economies. Thus, success or failure means "completion or incompletion of an announced acquisition", "agreement, or disagreement of the deal". Albeit, very few studies have examined the causes of failure deals in developed economies context, while there is limited research on emerging markets perspective. In general, firm-specific, country-specific and deal-specific factors play a major role both in domestic and in overseas deals. While arriving at a conclusion of the existing studies, most acquisitions fail to create a synergistic value to the acquiring firm shareholders in both ex-ante and ex-post stages (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). For instance, 80% of M&As failed to create value to the shareholders in which 53% of acquisitions really destroyed the shareholder value (in Marks & Mirvis, 2011, p. 162).

In Bargeron, Lehn, Moeller, and Schlingemann (2014), Calandro (2011), and Epstein (2005), the authors mentioned that acquisition agreements often fail because of a lack of careful evaluation of the target firm, paying a high premium for target, deal structure and experience of bidding firm managers, prospects of the combined entity, and acquiring targets similar to those competitors. In some instances, failures happen because of communication bottlenecks (Grantham, 2007). In other words, Morrison, Kinley, and Ficery (2008) showed operational due diligence and quality checks might break merger negotiations, whereas Galpin and Herndon (2008) discussed how mergers go wrong and suggested some guidelines within the setting for a repair. In particular, Zhang et al. (2011) mentioned that "target management resistance to acquisition bids, managerial ownership, target company size, deal structure … and the level of bid premiums offered in takeovers and ownership structure determine the end results of acquisition attempts" (p. 226). In sum, success by announcing cross-border acquisition between target and bidder not only influenced by firm- and deal-specific factors, but also determined by national characteristics such as economic, financial, legal, political and cultural environment. Hence, quality of acquiring firm managers, involvement of senior managers (Epstein, 2005), prior deal experience and association with host country government through local player, and so forth of institutional factors determines the success of foreign acquisitions (Abdi & Aulakh, 2012).

We found three interesting studies that examine a failed international telecom merger in the Scandinavian region. Fang, Fridh, and Schultzberg (2004), and Meyer and Altenborg (2007, 2008) analyzed the failed merger between Telia in Sweden and Telenor in Norway. The merger proposal has been called-off after 11 months of the announcement. They found that (i) disintegrating factors (e.g., distributive equality, operationalization of the equality principle, integrative equality, and a mix of equality) were strong, because merger involving two state-owned firms of unequal size, (ii) strategies adopted by merging firms found to be incompatible or unsuited (refers to that "it is not feasible for the merged corporation to choose both strategies simultaneously"), (iii) merging firms acquisition strategies were influenced by pre-merger strategies, (iv) merger also intervened by both countries' national political behaviour and governance structures. Importantly, Fang et al. (2004) suggested that "historical sentiments, feelings and emotions, if not handled well, can cause fatal damage to cross-cultural business ventures". They also mentioned three important reasons behind the failure: lack of personal trust between merging parties in the middle and later phase of deal making, both parties were wrong about estimating potential complexities and cultural differences, and both countries national relations illustrated as 'big brother vs. little brother' syndrome. Further, we also noticed an interesting oil deal among developed and developing countries in 2005, but resulted unsuccessful between CNOOC in China and Unocal in US (Wan & Wong, 2009). The authors found that takeover negotiations were broken due to political intervention. The takeover announcement also affected other companies in the US-oil industry in which they noticed a significant decline in market value of those non-merging oil companies. Whereas, stock prices of non-merging companies fell "in anticipation of a lower future takeover probability and expected takeover premium" (p. 454).

Interestingly, Neuhauser, Davidson, and Glascock (2011) analyzed stock performance of the target firm involving failed acquisition attempts (merger cancellations and three types of takeover failures: greenmail, simple withdraw and share repurchase) for a sample of 530 transactions during 1978-2004 period. They reported positive abnormal returns on acquisition announcement, while finding negative returns on both 'during the interim period and failure announcement'. Target firm shareholders have received significant higher abnormal returns around the acquisition announcement that later cancelled due to voluntary withdrawal or share repurchases compared to acquisition attempts that later failed because of a cancelled merger or greenmail. The returns found to be low when the announced deal actually cancelled in the above cases. Lastly, they suggested that even cancelled takeover attempts offer positive returns to target shareholders. In another study, Bargeron et al. (2014) examined bidder returns around disagreement over mergers for 623 transactions between 1996 and 2006. They found an inverse relation between bidder returns and information uncertainty regarding deal disagreement, whilst noticed a significant relation among announcement returns and chances of deal completion when such returns are more informative to bidders.

In case of successful acquisitions, Duncan and Mtar (2006) analyzed the international deal between FirstGroup of UK and Ryder of US in the transport business and described that previous international acquisition experience of acquiring firm has a positive relationship with subsequent acquisition success. Hence, higher post-merger value found to be possible when acquiring firm pay more attention to strategic fit, cultural fit and integration aspects.

With this backdrop, we analyze the host-nation's institutional role and its impact on foreign acquisition's completion.

3. Research design: a Multi-Case Study

Case study method is a legitimate tool in qualitative research, which aims to perform in-depth analysis on a single unit, or multiple units in the given setting. Qualitative researchers suggest that the case study method recommends two directions, namely to answer 'why and how' questions, and to build theory from thick evidence (Stake, 1994; Yin, 2003). For instance, recent studies have used the case method for various tasks and thereby blended the analysis using not only primary data, but also linking with secondary data [media texts] (e.g., Child & Tsai, 2005; Geppert, Dörrenbächer, Gammelgaard, & Taplin, 2013; Halsall, 2008; Kim & Lu, 2013; Reddy, 2015a, 2015b; Riad & Vaara, 2011; Serdar Dinc & Erel, 2013; Tienari, Vaara, & Björkman, 2003; Vandenberghe, 2011; Wan, 2014; Wan & Wong, 2009). We also find that few studies conducted case analysis based on published cases (Conklin, 2005). Specially, Ambrosini, Bowman, and Collier (2010) proposed a framework for using teaching case studies in management research.

We have thus adopted multi-case study approach to perform both individual case analysis and cross-case analysis of sampling cases. To do so, we chose three published cases based on the selection criteria. For example, case researchers should observe, “relevance rather than representativeness is the criterion for case selection” (Stake, 1994). Hence, a case should meet all six rules, to be included in the sampling cases. First, the deal or transaction should be a cross-border inbound acquisition in which the interested multinational firm has shown interest to merge with an Indian local company, or to buy at least 25% of equity stake in the Indian local company. Second, both acquiring firm and target entity should be publicly traded stocks in a stock exchange where the registered office is located, and the stocks should have a fair-trading for at least two years before the announcement. Third, neither acquirer nor target firm has a dispute (e.g., tax evasion) with the Indian tax department for at least three years before the announcement. Fourth, a country where the acquiring firm registered should have friendly relation with India for at least 10 years before the announcement; however, there could be institutional overlaps and misunderstanding, but not a war. Fifth, the deal or transaction value should not be less than $5.00 billion, and the type of deal could be cash, stock, or a mix. Finally yet importantly, the announced deal could be a long-time delayed, broken and/or litigated because of forced regulatory or political intervention. The issue could be a dual listing, corporate ownership, open offers, deal structure (e.g., foreign exchange issue), and international taxation. Here, litigation means the deal might force to be petitioned in the sovereign court.

Therefore, the number of units in our case research is three. The basic unit of analysis aims to capture the causes behind ‘delayed and unsuccessful cross-border inbound acquisitions in emerging markets setting’. Thus, cross-border inbound cases connected to India are (i) Vodafone acquisition of Hutchison for US$11.2 billion in 2007 (Reddy, 2015b; Reddy et al., 2014a), (ii) unsuccessful cross-border merger between Bharti Airtel and MTN for US$23 billion in 2008-09 (Reddy et al., 2012), and (iii) Vedanta Resources acquisition of Cairn India for US$8.67 billion in 2010-11 (Nangia, Agarawal, Sharma, & Reddy, 2011). In other words, two cases were representing telecommunications industry and remaining case was describing oil and gas exploration industry.

The major characteristics of selected cases include – (i) deal was related to telecommunications business, acquirer: Vodafone, target: Hutchison and the deal had been litigated due to international capital gains taxes connected to the host country-India; (ii) deal was related to telecommunications business, which is a failure deal between Indian-based Bharti Airtel and South African-based MTN group. The transaction defined to be ‘cross-merger' in which both companies will offer services in the two countries by the cross (dual) listing in the given economic settings; (iii) case was related to the energy sector in which UK-registered Vedanta Resources acquired the UK-based Cairn Energy's equity ownership in the Indian-listed Cairn India Limited. The deal initially started in August 2010, but delayed and then finally completed in December 2011 after obtaining all approvals from the concerned ministry and regulatory authorities.

4. Analysis of sampling cases

Case analysis is an important course in the case-study investigation across the interdisciplinary electives (Reddy, 2015a; Yin, 2003). We have discussed cases for various reasons that account for strategic motives of the deal, determinants of the transaction, and stock price reaction to the acquisition announcement. In particular, we have blended the extant cross-border M&As literature with case findings, and thereby improved the understanding and knowledge on international deals involving emerging markets.

4.1 Analysis of Vodafone-Hutchison case

Following the thick-description of the extant review and media texts, we analyze the case from two basic questions 'why' and 'how' in the given research environment. When alternative forms of foreign-investments are available, why did Vodafone intend to acquire Hutchison equity stake in CGP Investments as an entry into the Indian market. It does not simply a mean of the motives of acquisition, but it tries to look up what other strategic financial synergies were.

(a) <u>Strategic motives of acquisition</u>:

In the extant IB and strategic management literature, researchers have described the progress and potential of emerging markets and opportunities in it (e.g., Hoskisson, Eden, Lau, & Wright, 2000). In this vein, India is one of the Asian continental countries, which is a constituent of the emerging markets group. We agree that Indian market offers a great deal of market opportunities and invites MNCs to invest in the country for both economic progress and financial integration with the world economy. It is because of two important reasons, firstly the 1991 economic policy reforms, and secondly the contribution of the service sector to the economy, mostly information technology industry. In particular, the market that has significant potential and higher growth in the service sector is telecom business [when Vodafone planned to entry in India]. In this setting, a foreign MNC is allowed to invest in

India through direct investment (including acquisitions) or automatic investment route (a central bank's permission is required). On the other hand, Vodafone is one of the fastest growing telecom companies in all European markets, which has considerable networks and alliances with other telecom companies. In fact, Hutchison Whampoa and Vodafone are the big players in this industry and both are 'Flagship firms' in which they usually co-ordinate both investment and operational activities of other companies within their business network (Whalley, 2004). Importantly, Vodafone has prior acquisition experience in the international telecom market. For instance, the takeover of German telecom Mannesmann by Vodafone in 1999 also had faced serious issues relating to valuation of shares and premium. In fact, it "also became the subject of political debate and attempts at political intervention in Germany" (Halsall, 2008). Herewith, we reveal two findings: Vodafone aimed to offer services in all countries and to become a global giant in the telecom market. It entered India because of potential in the telecom market (Appendix 1).

Moreover, Vodafone is technologically advanced MNC compared to domestic rivals include Bharti Airtel, Reliance, BSNL, Idea, etc. Conversely, Hutchison Whampoa Limited (HWL) almost retained their original investment and aimed to grasp the infrastructure projects (e.g., shipping) in the global market. With this, one might agree that HWL aimed to build their business value by making higher levels of investments in the global infrastructure projects. It infers that Vodafone wanted to enter the Indian market; at the same time, HWL also wanted to leave the market. Based on their previous alliance experience in the telecom business in European markets and following India's border-crossing investment and taxation laws, Vodafone planned that acquiring HWL equity stake in CGP Investments likely to be a better option whilst saving corporate gain taxes on cash acquisition. Finally, it is understood that the motive of Vodafone acquisition was global diversification, increase market share by offering international services, gaining competitive advantage over domestic rivals, and enter other Asian markets through making Indian-entity as a wholly owned subsidiary. Altogether, Vodafone market value and brand value will improve significantly over the period. However, we argue that "saving or escaping capital gains tax" was not in any way the motive when we compare with the Vodafone's previous acquisition of Mannesmann. One might infer that Vodafone achieved tax advantage due to their (or, their advisors) critical analysis of Indian overseas investment laws and their Indian-based legal advisors; of course, the chief executive officer, who is an Indian-origin. Further, Vodafone's previous experience in overseas deal making truly helped the company officials while overcoming entry-mode barriers in developing countries and reaching the conclusion. We would support this streak to the organizational learning theory: learning-by-doing and learning from prior acquisition experience (Collins, Holcomb, Certo, Hitt, & Lester, 2009; Francis, Hasan, Sun, & Waisman, 2014; Lin, Peng, Yang, & Sun, 2009). For instance, Collins et al. (2009), and Meschi and Métais (2013) found that previous acquisition experience has a positive impact on overseas deal completion and such experience usually influenced by company's overseas lookup/ establishment. Lastly, one would not agree with the construct of agency theory: managers exploit the shareholders' funds for their self-benefit, but not pragmatism.

(b) Prospect views and comments:

This section is an extension of the discussions presented in a published case paper (Reddy et al., 2014a, pp. 60-61). Hymer (1970, p. 447) argued that "MNCs, because of their size and international connections, have certain flexibility for escaping regulations imposed in one country". In a recent study, Huizinga and Voget (2009) mentioned that international taxation has been a significant determinant in cross-border mergers like in Daimler of Germany with Chrysler of the US in 1998. They also cited that "the exemption from taxation by Germany of dividend income from abroad in contrast to the US system of worldwide taxation was one of the main reasons for locating the parent firm of Daimler-Chrysler in Germany" (pp. 1217-1218).

We provide a special acknowledgment to the Vodafone's management and their patience during several rounds of proceedings at the state-level court and apex court. It is evidenced that Indian constitution and institutional laws are mostly old, not at par with other emerging markets; and of course, the problem is not related to the laws or regulations but it is highly related to the implementation of such rules and regulations in time that might due to political intervention and inefficient bureaucratic administration in many ministries including corporate affairs. As a case researcher in management, our argument is straightforward when the existing laws or book of law is inappropriate to justify or to judge the given case, then why should Vodafone pay the corporate gains tax. We argue that the actions or behavior of various ministries (e.g., department of revenue) has influenced or supported by politicking for seeking self-benefit from Vodafone in the form of bribe or corruption. Even it might be a case where a competitor or group of competitors influences the government to take advantage of the market capabilities if Vodafone continues to be litigated in the court. After many rounds of serious (strategic) arguments (explanations), Vodafone won the case, stating that it was not required to pay any more taxes to the government in light of the acquisition. By contrast, Vodafone's legal cost should be raised due to long-delay, proceedings and legal fees.

On the other hand, Hutchison's investment motive in India supports the Edgeworth box theory, where remitting profits are higher than the capital invested in the host country (Wang, Liu, & Zhang, 2007). In Whalley and Curwen (2012, p. 29), the authors argued that HTIL could have represented loss in 2007 when no sale of its 100% equity interest in CGP Investments to Vodafone. They also stated that HTIL has invested roughly US$2.6 billion in India since 1995. In this regard, one can estimate that Li Ka-shing has markedly gained about US$8.3 billion for the period of Hutchison presence in India during 1995–2006 period (also cited in Reddy et al., 2014a).

(c) Stock price reaction to the announcement:

In the financial economics literature, researchers often examine stock returns around the merger or acquisition announcement using event study method (e.g., Brown & Warner, 1985; Fama, Fisher, Jensen, & Roll, 1969). Following this, we compute stock (Vodafone) and market (FTSE-100) returns around two incidents: deal announcement and after winning the case (Figure 1.1, Figure 1.2). We define the window period as ten days before and after the incident (-10, +10). Firstly, we understood that Vodafone has formally agreed to buy Hutchison equity stake on February 12, 2007. In the given Figure 1.1, it is noticed that Vodafone shareholders have received higher returns on the announcement day in which the stock gained by 1.34% than the previous day, but the market returns declined by 0.46%, and therefore, the abnormal returns were 1.80%. Surprisingly, the stock has shown negative returns before and after the announcement (0.83%, 0.83%) while market returns result in positive to be 0.57% and 0.45%. At the outset, one might argue that shareholders perceived the benefit of Vodafone's acquisition strategy of entering the Asian emerging market-India. We argue that the Vodafone's acquisition plan has created significant abnormal returns to their shareholders on the announcement. While observing the Figure 1.2, one suggests that winning the tax plea in the Indian jurisdiction has not influenced the stock on the day when Supreme Court given the judgment in favor of Vodafone (January 12, 2012). However, the stock has been crashed by 2.51% after the immediate announcement day, i.e. January 13, 2012. For the reason that the decline in stock was not due to this reason, but might be the effect of other financial restructuring news. We understood that shareholders have received significant returns on the announcement day, but not on the day when Vodafone won the tax plea case in India. In sum, one can suggest that new information regarding company's long-term strategic investments has influenced the stock, which supports the 'moderate' market efficiency.

[Insert Figure 1.1, Figure 1.2]

4.2 Analysis of Bharti Airtel-MTN deal

As discussed in the method section, analysis is performed based on the published-case (Reddy et al., 2012). In addition, we have followed the case updates since the deal announcement and its appearance in the national media, particularly finance print media. Herewith, we understood that Bharti Airtel is a flagship telecom company of the Bharti Group based in India had been failing in twofold negotiations with South African based telecom market leader MTN, thus to create a cross-border merger, Bharti Airtel-MTN to do business in both the countries by making a compulsory norm that is dual listing. The analysis is responsible for various reasons such as strategic motives of the merger, reasons behind broken negotiations and stock reaction around the announcement.

(a) Strategic motives of the cross-border merger:

We analyze motives behind cross-country merger from the view of two organizations. On one hand, Bharti Airtel was the market leader in the Indian telecom market, which had significant market share and market value. In fact, the company has some experience in making domestic deal's success while having deep pockets. Moreover, it was one of the recognized business groups in India, controlled by family-ownership. The top-level management has aimed to put the Bharti Airtel as one of the leading telecom company in the world's league cum ranking by internationalizing their operations in low-end markets like Africa, South Asia and Middle East countries. We believe that the management of the Bharti Airtel has chosen "acquisition strategy" as a better option compared to greenfield strategy. It is evidenced that acquisitions create higher value to the shareholders than other foreign market entry-mode choices. One might raise a question regarding market selection: why did the company choose Africa as a potential investment. After observing the saturation in developed markets, many US- and UK-based multinationals have aimed to grasp the market in low-end or developing markets. Thus, South Africa is one of the constituent in the emerging economies group, which is a growing market and invites potential players in the business. Indeed, India has good associations with South Africa since the independence of the country. We argue that Bharti Airtel has chosen African market due to pertinent business opportunities in the telecom market, and hoping Africans would respond positively to the company services after the merger. Conversely, MTN Group was largely controlled by government ownership, and its administration influenced by western management theories and practices. In fact, the company offers services across the markets at par with international competitors like Vodafone, AT&T, Hutchison, etc. It is found that MTN Group was a much bigger company than Bharti Airtel in terms of revenues was but market capitalization was lower. MTN has aimed to expand globally by choosing 'acquisition option' as one the value creation strategy among other foreign market-entry modes, and their decision 'to merge with Bharti Airtel' was largely influenced by the previous- and ongoing-economic relation between two countries.

In addition, we have discussed few synergies of the transaction (if the deal could have been completed in second-innings.) The synergies include financial, marketing, operational and technological aspects. Firstly, the new dual-listing entity "Bharti Airtel-MTN" in India and "MTN-Bharti Airtel" in South Africa would improve the business value in terms of revenues, market capitalization and profits. The deal would have created higher value or abnormal returns to the shareholders of both companies around the merger announcement. It would have focused on new markets in South Asia and Middle East through greenfield and acquisition modes. As a result, the cost of services will go down due to market integration that leads at improving cost-leadership, which also enhances the average revenue per user. Regarding the market, the new entity would grasp higher market share both by integrating various international services and by offering services in other markets. It would have supported by the advanced technological features and operational strategies. Both technologies and operational strategies influence the customer service, customer satisfaction, customer retention, cost reduction and brand reputation. In sum, the combined- ownership, administration and expertise would focus on network and service quality that led to build a global giant in the telecom business.

(b) <u>Reasons behind the unsuccessful cross-border merger</u>:

Based on the rich reading to cross-border M&As, we understood that internal factors (firm- and deal-specific) and external factors determine the cross-border deal success or failure. We have presented our systemic case analysis by tying the connection between extant literature and case description. The reasons behind the unsuccessful cross-border merger include firm-specific factors (status of the company, ownership structure and previous acquisition experience), deal-specific factors (deal structure, deal type, payment mode, advisors to the deal and their experience), and external factors (institutional issues, political issues, legal issues, and socio-cultural differences) (Figure 2).

[Insert Figure 2]

Firm-specific determinants

Bharti Airtel incorporated as an Indian company and listed on the country's leading stock exchanges. The company does not offer any services outside the country in the given telecom business, and does not have an international outlook (prior to this deal). MTN Group incorporated as a South African company, which has an international outlook due to its widespread services and operations in the African region and technology integration. We argue a firm that has some international experience can actively participate in overseas deals without making further delays compared to average deal making time. Bharti Airtel (MNT Group) was largely controlled by family-owned (government-owned). We suspect that ownership structure also played a key role in making deal unsuccessful. For the reason that, after the merger ownership in the dual listing firm will be in different form compared to the previous status as it was in unmerged firm and this issue will lead to create agency conflicts (e.g., Indian managers vs. South African owners, South African managers vs. Indian owners) in both the countries. Importantly, Bharti Airtel does not have any international deal making or acquisition experience but it has few acquisition experiences in domestic deals featuring lower bids. MTN has an international outlook but it does not hold significant acquisition experience. We therefore agree with the extant researchers' evidences that previous acquisition experience in overseas deal making has a positive impact on deal completion (Collins et al., 2009; Francis et al., 2014; Meschi & Métais, 2013). For instance, Collins et al. (2009) found that prior experience with international acquisitions is more predictive of subsequent overseas acquisitions than prior domestic acquisition experience. Zhu (2011) suggested that overseas deals require more sophisticated and advanced managerial skills and expertise to control the firm internationalization process. Further, acquiring firm's economic value, availability of free cash flows and market potential stimulate to engage in overseas acquisitions (Gonzalez, Vasconcellos, Kish, & Kramer, 1997). Albeit, it is not our primary objective of the research to evaluate the financial performance but after reviewing their previous annual reports, we found that both companies have sufficient cash reserves and good financial indicators. In addition, the relevant factors could be managers who participated in two negotiation innings and their skills and expertise in deal making.

Deal-specific determinants

Previous researchers found that deal characteristics also determine the deal completion or incompletion. We found few studies that examine deal-specific factors influencing announcement returns but not studies that investigate the status of deal, negotiation process or merger process. In the review article, Haleblian et al. (2009) mentioned that deal success not only depends upon firm-specific factors like size, financial performance and acquirer experience but also influences by deal-specific factors like payment method and deal type. We therefore discuss the given case by linking various deal characteristics such as deal structure, deal type, payment mode and advisors to the deal and their experience. Firstly, Bharti Airtel-MTN deal structure was largely confused and dominated by the "importance of ownership rights" that created an institutional dichotomy "dual listing". As a result, payment method has been determined both by stock transfer and by cash payment, together estimated the deal value over US$23 billion. We do not agree that M&A advisors have really shown their expertise in deal completion or building cross-border deal structure. As mentioned in the case, Standard Chartered and Barclays advised Bharti Airtel, while Bank of America Merrill Lynch and Deutsche Bank advised the MTN Group. It is fact that all advisory firms have excellent international expertise and experience in overseas deals ranging from private equity to joint ventures and acquisitions. They are highly reputed advisors operate internationally have expertise in deal making that responsible for developed markets (Lowinski, Schiereck, & Thomas, 2004). However, advisory firms do not have previous experience in deal making with developing economics or emerging markets like India, China and South Africa. Herewith, one might comment lack of experience in deal making, which linking emerging markets adversely affect the deal success. Further, it is clemency to put a comment on two-negotiation innings where advisors did not perform well even in the second innings after knowing their mistakes in the first innings. In sum, we argue that deal-specific factors play an important role in cross-border merger or acquisition completion. Therefore, managers of acquirer and target firms, and M&A advisory firms should learn how to make deals successful in emerging countries.

External factors

Previous studies have examined the determinants of cross-border M&As in different economic settings found that country-specific factors such as economic and financial market indicators, institutional characteristics, political factors (including corruption), accounting, valuation and taxation laws, geographical factors and cultural factors determine the foreign deal success or failure (e.g., Akhigbe, Madura, & Spencer, 2003; Alguacil et al., 2011; di Giovanni, 2005; Hitt, Tihanyi, Miller, & Connelly, 2006; Pablo, 2009; Reis et al., 2013; Serdar Dinc & Erel 2013; Zhang et al., 2011). For example, Rossi and Volpin (2004), Bris and Cabolis (2008), and Martynova and Renneboog (2008) suggested that acquisition transactions were high in countries with better accounting standards and stronger investor protection. In addition, we also observe few cases connected with emerging markets group, and thereby argue that firm- and deal-specific factors do not affect all announced deals, but county-specific determinants affect all kinds of inbound and outbound deals, especially pre-completion phase of the M&A deal. It infers that owners and managers should give more priority to institutional characteristics to make deals successful than other negotiation factors like deal structure, payment matters and due diligence.

In the given case, Bharti Airtel-MTN cross-country M&A deal had broken because of two country-specific determinants: institutional factors including laws and regulations related to M&As, and political factors including bureaucratic administration. Firstly, every country defines their own institutional rules and regulations relating to domestic and foreign inbound/outbound investments. It is fact that host country governments usually restrict foreign inbound investment to protect domestic owners and to control the market prices (e.g., Shimizu, Hitt, Vaidyanath, & Pisano, 2004). At the same time, a country like India does not update or improve the institutional regulations due to political pressure and lack of expertise in policy strategies. Then, this kind of dichotomous behavior adversely affects inbound deals and thereby escaping such restrictions domestic multinationals make outbound investments. In Witt and Lewin (2007), the authors argued that local firms invest in other countries as an escape response to home country institutional constraints. Of course, Bharti Airtel followed the same strategy where it acquired Zain Telecom after negotiations broken with MTN. The key institutional dichotomous law is "dual listing". (dual listing is a process by which a company would be allowed to list and trade on the stock exchanges in two different countries.) This decision obviously influences the ownership structure of the combined entity. Deal structure has also faced serious contemplations including stock transfer in the form of global depository/American depository receipts and cash payment. Many countries do not allow companies to list on two different country stock exchanges. Albeit, to the best of our knowledge, US government allows such deals due to its developed financial markets in terms of size, technology and control mechanisms. To overcome this dichotomy, Bharti Airtel or MTN could have materialized the deal either by making strategic joint venture or by creating wholly owned subsidiary through greenfield entry.

Lastly, we would comment on political factors associated with the deal process. We outline that the case was announced first time on May 6, 2008, then called-off the deal after 19 days, i.e. May 25. Thereafter, they re-participated in the second innings on May 26, 2009, extended until August … to September, and then finally departed the deal on September 30 without making further attempts. Apart from the case writing experience, we interpreted everyday news around the merger announcement and were eager to know the status of negotiations. The deal has been cancelled not only due to institutional regime, but also due to political and bureaucratic administration including various government officials and ministries like telecom, competition controller and stock market regulator. It is suggested that host country political and institutional environment determines the success of cross-border takeovers (Zhang et al., 2011). For instance, Wan and Wong (2009) highlighted that the proposed deal between CNOOC's of China and Unocal of US became unsuccessful due to political barriers.

Some researchers might argue that the proposed deal had broken because of cultural factors between two countries (e.g., Geppert et al., 2013; Hitt et al., 2006; Reus, 2012). Albeit, we agree that there is significant difference in culture and habits between two countries; but this may not be a strong reason, because the deal should have been broken in the first meeting if culture is the main issue. In a recent study, Serdar Dinc and Erel (2013) argued that “nationalism in mergers is more likely to be motivated by sociological and political reasons than economic ones”. Therefore, host country regulations, policies, foreign relations between home and country countries and progress of the host country’s economy are extremely essential for acquiring firm managers in successfully conducting overseas deals in emerging markets like India and China (e.g., Zhang & He, 2014). In addition, host country corruption is directly proportionate that adversely affects cross-border inward capital flows when coming from developed to developing economies (e.g., Barbopoulos, Marshall, MacInnes, & McColgan, 2014). We also argue that the deal has collapsed due to operationalization of the equality principle (Meyer & Altenborg, 2007), and due to lack of careful evaluation of due diligence issues such as financial and organizational factors (Epstein, 2005). It is appealing to counterpoint that Bharti Airtel-MTN deal was broken as similar to the deal between two Scandinavian telecom companies, Telia of Sweden and Telenor of Norway in 2001 (Meyer & Altenborg, 2007, 2008). Likewise, the acquisition of German telecom company Mannesmann by Vodafone in 2000 and British subsidiary Rover by German automobile firm BMW in the same year were being resulted “not just as business disputes …, but as part of a wider conflict between different models of capitalism that responsible for two countries" (Halsall, 2008).

(c) Stock price reaction to the announcement:

We have computed stock returns around the announcement that refers to three incidents: first innings, second innings and deal cancellation (Figure 3.1, Figure 3.2, Figure 3.3). We examined stock (Bharti Airtel) and market (NSE: CNX Nifty) returns during the event widow that is ten days before and after the announcement (-10, +10). From the Figure 3.1, one can perceive that Bharti Airtel and MTN have started negotiations first time on May 6, 2008. However, the stock has crashed by 5.32% on the announcement day, which was higher than the decline in market returns 0.92%. Importantly, the stock has shown negative returns on the day before and after the announcement (0.70%, 3.57%), but the stock price rose by 1.60% and 1.52% on second and third day after the announcement. We understood that Bharti Airtel shareholders were not happy to perceive the strategy of merging with South African based MTN Group. Thereafter, when both companies have restarted their negotiations (May 26, 2009) for possible deal making, then Bharti Airtel stock again crashed by 4.83% on the announcement day, which is higher than the decline in market returns 2.85% (Figure 3.2). It infers that shareholders were not content to accept the offer or decision taken by the board, which postulates the agency theory: manager's individual decisions at the expense of shareholders funds. Finally, when the deal collapsed on September 30, 2009, Bharti Airtel stock has raised by 3.90% on October 1, 2009, which was the day after the announcement, while market returns have slightly declined by 0.01% (Figure 3.3). It assumes that shareholders have benefited on the day immediate to the announcement regarding 'negotiations called-off' and their returns were more than the market returns. Herewith, we believe that both companies might have decided to call-off the deal after the market closing on September 30, but it has resulted in October 1. One may argue that new information regarding the firm's long-term strategic investments has influenced the stock, which supports the 'strong' market efficiency.

The broken cross-country Bharti-MTN deal shall become evident for budding entrepreneurs and rising executives and managers, who are interested to partake in M&A, joint ventures, takeovers and strategic alliances. Moreover, the deal became complex due to non-availability of ready reckon of regulatory provisions on takeover code, open offer issues and dual listing in India.

[Insert Figure 3.1, Figure 3.2, Figure 3.3]

4.3 Analysis of Vedanta-Cairn India deal

Organizations such as developed and emerging country MNCs participating in cross-border M&A, takeovers, joint ventures and alliances should pay more attention to *due diligence*: pre-emptive rights, contracts, contingent issues, and *country-specific issues*: institutional norms and political and government involvement, together badly affect the deal. With this intuitive note, the case suggested that there is no connotation of excellent or awful negotiations, though those will affect the deal conclusion. A possible merger depends upon the belief and willingness of both the entities that would make the deal successful or unsuccessful. At the outset, we argue that Vedanta-Cairn India deal has been delayed (later, completed) due to institutional regime relating to open offers and ownership choice, political factors and bureaucratic erratic behavior, and due diligence issues. Captivating this, we presented the case analysis in different streaks include strategic motives of the acquisition and the reasons behind the delayed deal. Prior to look into the case analysis, it is our primary guideline in which we have analyzed the case based on published case (Nangia et al., 2011), direct observations through media texts around the announcement and extant literature on cross-border acquisitions.

(a) <u>Strategic motives of acquisition</u>:

The key motives of conglomerate acquisition include business diversification, location experience, new market opportunities and overall business value (Figure 4).

Business diversification

The prime motive of Vedanta's acquisition of Cairn Energy stake in Cairn India is conglomerate diversification, then to create a leading international group in the businesses of core sectors like mining, aluminium, iron ore and oil. Of course, acquisition strategy is the most common means of implementing diversification (Pablo, 2013). Given that Vedanta is new to the business of oil and exploration, thus it has to think about implementing the footsteps in the Indian oil trade. Cairn energy has an interest in exploration rather refining and marketing of that oil/gas. In this setting, Vedanta will make a new plan and design proper implementation program to add success to its twenty years of growth. As highlighted in the press that "the acquisition enhances Vedanta's position as a natural resources leader in India. Cairn India's Rajasthan asset is a world-class infrastructure in terms of scale and cost, delivering strong and growing cash flow." Vedanta can achieve its goal becoming the world's third largest diversified miner after BHP Billiton and Rio Tinto. The acquisition would also position Vedanta as a major oil player in Asia. We believe that Vedanta will meet their mission statement "to be a world class metals and mining group and generate superior financial returns" over the period.

[Insert Figure 4]

Location experience

In the given case, Vedanta Group is an Indian-origin business entity where it operates business transactions from its headquarters in London, UK, which has businesses in iron ore, aluminium and zinc. Due to this reason (Shimizu et al., 2004), we have treated the deal as an overseas acquisition. Besides heavy restrictions and higher level of control by government oil companies, Vedanta will move forward due to their previous and ongoing experience in India.

New market opportunities

It is also a fact that the acquiring firm (Vedanta) will gain a new business advantage by acquiring Cairn India that is oil business. In other words, it is an unrelated business segment in the existing portfolio of Vedanta Group. Herewith, we argue that conglomerate diversification through acquisition will create new product or business opportunities but it does not gain competitive advantage using their existing managerial skills and expertise. In such cases, conglomerate diversification strategy creates new agency problems besides existing issues in the diversified business group (e.g., Erdorf, Hartmann-Wendels, Heinrichs, & Matz, 2013).

Business value

By acquiring Cairn Energy's stake in Cairn India, Vedanta Group business value will substantially improve in terms of market capitalization and overall firm value [revenue]. It is because of two reasons, first acquiring firm owns significant ownership interest in the target firm, and secondly, that ownership rights will add value to the whole group business value [incremental growth in revenue]. In the literature, few scholars have argued that conglomerate diversification creates (destroys) firm value (e.g., Martin & Sayrak, 2003). In a recent review, Erdorf et al. (2013) suggested that concentric (related) diversification improves market value than that of the increase in the conglomerate (unrelated) diversification. So far, Vedanta business value has grown up due to their expertise in acquisitions: deal making, integration and management. It will happen in the long run due to its nature of business that is oil exploration in India, which is largely controlled by public-sector enterprises like Indian Oil Corporation, ONGC, Hindustan Petroleum Corporation, etc.

In addition, it is not our purpose to examine the case from the lens of negativity, but we largely explore the case based on existing literature. The negativity of the merger includes Vedanta has no experience in the oil business, erratic laws related to the oil industry in India (e.g., inconsistency in oil prices), higher control of government authority, and political pressure, international oil prices effect, need heavy investment in the oil business and the opportunity [cost] lacking in other investments. We argue that Vedanta will create value by integrating the resources such as people, markets and technologies, and others like board structure, technical staff, capabilities and core competencies of Cairn India. As, Vedanta is new to the field of oil exploration business; therefore, it should appoint efficient managers to look after the new business and to improve business value. There were failures in 'diversification through acquisition' in the past, but Vedanta so far assembled its businesses in various geographical networks through acquisition method. Finally, we propose that Vedanta has better prospects in the oil exploration business in India that will enhance overall business value if they had better use of location advantages, prior diversified experience, international outlook and internalization among its subsidiaries in India and overseas.

(b) Reasons behind the delayed deal:

We outline various reasons behind the delayed deal that responsible for organizational factors, deal characteristics, due diligence and country-specific determinants (Figure 5).

Organizational factors

In the given case, one may find that Vedanta Group is one of the largest business groups in India, which operates businesses in aluminium, iron ore, copper and zinc. Whereas, the company is a registered UK firm and manages from its headquarters at London. It has significant experience in minerals trading as well as in converting loss making into a profit-making business. In particular, both Vedanta and Cairn Energy have sophisticated previous acquisition experience in India. For example, Vedanta acquired Sesa Goa, an iron ore business among other contested bidders like Mittal Steels and Aditya Birla Group. Importantly, Hindustan Zinc Limited (HZL) has shown 400% rise in production capacity in seven years of post-acquisition under the control of Vedanta Group. We strongly argue that the company has stylish experience both in business making and in deal contesting. During the deal announcement, few government officials raised questions relating to relevant field experience and other ownership issues. Albeit, Vedanta will manage new business using their intellectual knowledge, skills and expertise. In sum, we understood that lack of relevant business experience also influence the deal completion.

[Insert Figure 5]

Deal characteristics

In the field-based study, Epstein (2005) suggested that acquiring firm managers should pay attention to two aspects of the deal structure, namely price premium and payment mode. As such, the case background, we did not find any deal-specific factor that caused the deal delay or unsuccessful within the average deal completion time. We deeply examine the deal structure, and then drawn few interesting observations. The deal had not been attracted by counter-bids either from domestic or from international owners. It infers that Vedanta was the only bidder keen to grasp the new business opportunity by acquiring Cairn Energy's stake in Cairn India. Following the Section 20(8) of the SEBI (SAS&T) Regulations-1997, Vedanta has paid a non-compete fee, a sum of Rs. 50 per equity share to Cairn Energy for not to operate the same business in India, Sri Lanka and Bhutan over next three years (2011-2013). Further, Vedanta and Cairn Energy have agreed to break fee arrangement; "will pay an amount equal to 1% of the market capitalization of Cairn Energy on the last trading day prior to the deal announcement". The deal structure was meaningful and developed by professional M&A advisors but both open offers program and payment structure were a bit confused. Herewith, we understood that either domestic or international firm acquiring more than 20% equity stake in the Indian-listed entity should buy shares from the public through open offers, above than the threshold limit as prescribed in the SEBI Takeover Code, 1997. We do not comment on the open offer program that is governed by SEBI to protect small and medium shareholder's ownership interest. Because of open offers program, Vedanta developed a strategic plan thorough its Indian subsidiary firms, THL Aluminium Ltd and Sesa Goa Limited, and JM Financial was the lead manager made the public announcement. In fact, payment structure has diluted, faced many issues at SEBI, RBI and other government bodies including tax authorities. Regarding payment, we found that Vedanta has paid the deal amount to Cairn Energy largely through long-term bank loans. Finally, Vedanta Resources hold 58.5% (direct and indirect) ownership interest for US$8.67 billion after passing 16monhs of public announcement. In sum, we argue that except open offers program (and, royalty payments), other deal characteristics like the type of deal, payment type, non-compete fee, break fee and advisory role did not influence the deal completion.

Due diligence

In the extant literature on international deal making, scholars have argued that due diligence should be conducted by professionals to ascertain the true business value of the target firm, and to know the business issues and other contingent issues attached to the deal. In the given case, we found due diligence issues include pre-emptive rights, production sharing contracts, royalty payment and information transparency. Firstly, ONGC, which is a public-sector enterprise, has 30% ownership interest in the Rajasthan oil field where in it attracted pre-emptive rights or right of first refusal. However, ONGC's pre-emption did not affect the deal completion. Secondly, Cairn Energy has fulfilled more than 10 clearances from the petroleum-ministry due to ownership interest in Cairn India through its subsidiaries in Australia, Mauritius, British Virgin Islands, Singapore, UK and the Netherlands. Thirdly, ONGC had raised an issue on royalty payment but Cairn Energy's founder said neither Cairn nor Vedanta has any role in the royalty issue and there is no subject of us paying any amount of royalty. Lastly, Cairn Energy also cleared other transparency issues relating to acquirer profile, previous experience and financial progress, which was an issue with ONGC. While, some media statements described that the deal has delayed due to royalty payments disagreement among Cairn Energy, ONGC and Petroleum Ministry (e.g., Business Line, 2011). We thus suggest that acquiring firm managers and M&A advisors should also pay attention to the due diligence program of the target firm (e.g., Angwin, 2001). In some instances, white collar crimes become a serious considering factor in due diligence and sovereign related compliances (Byington & McGee, 2010).

Country-specific determinants

Existing studies on cross-border M&As provided the evidence that deals completion not only influenced by organizational- and deal-specific determinants, but also influenced by country-specific determinants like economic indicators, institutional laws, political factors and cultural issues. At the outset, we argue that economic and cultural determinants between two countries have no impact on the Vedanta-Cairn India deal. Nevertheless, we found two important issues, namely erratic behavior of institutional bodies and political intervention. A few government ministries and associated politicians have tried to take the advantage of the deal but they rather failed to perceive benefits like a bribe. Because of politicians' unhappiness, they insisted regulatory bodies to behave unfriendly that made the deal delay. Of course, Vedanta's founder met government officials responsible for the Ministry of Petroleum, Ministry of Finance, Prime Minister's Office and President of the ruling political party. Following this, regulatory bodies such as SEBI and other departments have represented their erratic behavior and thereby delayed the government approvals when Cairn Energy approached them. We suggest that this streak supports the theory of liability of foreignness (Denk, Kaufmann, & Roesch, 2012; Zaheer, 1995). Albeit, Vedanta and Cairn Energy have set the deadline April 15, 2011, but it delayed, then finally completed in December, 2011. While supporting our argument, we accept the findings of previous studies that host country's political environment, institutional and regulatory framework and behavior of sovereign departments significantly affect the international acquisition completion. For instance, Wang et al. (2007) suggested that host country governments often protect foreign deals due to national economic security. Specifically, political influence found to be more in deals when state-owned enterprises become targets or when the industry is largely controlled by government enterprises irrespective of the target firm ownership structure (Zhang et al., 2011). They also suggested that "political concerns and perceived national security threats can lead national review agencies to quash deals in the name of national security or to protect local champion" (p. 228). In sum, the quality of governance framework - political, economic, social, institutional and cultural environment affect international inward acquisitions.

(c) <u>Stock price reaction around the announcement</u>:

The study exclusively evidences the reaction of stocks of all connected parties around acquisition announcement and compares with market performance. Based on the event study method, we examine stock returns for acquiring firm (Vedanta Resources), target ownership (Cairn Energy), target firm (Cairn India), and market index (FTSE-100, NSE CNX Nifty) (Figure 6). The announcement date was August 16, 2010. The stock and market returns are examined during the event window, i.e. ten days before and after the announcement (-10, +10). Interestingly, we found that both Vedanta and Cairn Energy shareholders have benefited by significantly higher returns on the announcement day (4.87%, 5.32%) compared to market returns (0.01%). While, Cairn India stock price has crashed by 6.36% on the announcement day and this decline was notably higher than the market returns to be negative, 0.62%. Hence, both Cairn Energy and Cairn India stock returns found to be positive for two days before the announcement, then Cairn Energy stock returns declined after the announcement. Whereas, Vedanta stock returns found to be negative before the announcement day. In particular, both Vedanta and Cairn India stock returns gained by 3.11% and 1.67% respectively after the immediate announcement day (+1), while Cairn Energy stock found to be declined by 1.38%. From these findings, we infer that Vedanta and Cairn Energy shareholders were positively reacted to the acquisition. It means Cairn Energy shareholders received a better valuation to their stock, whilst Vedanta shareholders perceived that business value would improve through the acquisition made in India because of location experience, previous acquisition-integration experience and ongoing business practice in the country. This streak positively associated with the existing studies. By contrast, Cairn India stock found to be negative on the announcement day, which infers that shareholders perceived that Vedanta does not have experience in the oil business, which will adversely affect the business value in the future. Based on the inferences, we argue that acquisition information positively received by Vedanta and Cairn Energy shareholders, while Cairn India shareholders found to be disagreeing. These findings support the market efficiency theory (semi-strong/moderate) where market reacts to the new information relating to long-term business restricting events like mergers, acquisitions joint ventures and takeovers.

[Insert Figure 6]

5. Cross-case analysis of sampling cases

In multi-case research design, cross-case analysis is one of the most important tasks that aimed at presenting various case issues across cases, which enhances the understanding and research learning (Table 1). The cross-case analysis presents discussions for various reasons such as (a) characteristics of the acquiring and target firms, (b) typical attributes of the deal, (c) determinants of the deal (firm-, deal-, and country-specific attributes), (d) stock performance around acquisition announcement, (e) understanding and learning, and (f) implications for host country and multinational managers. Furthermore, we also outline common findings across cases for diverse causes accountable for firm-, deal-, and country-specific determinants.

[Insert Table 1]

6. Concluding remarks

6.1 Implications of mergers and acquisitions for extractive industries

We found very few studies that examine acquisition concept in the extractive industries include oil and gas exploration, gold mining and iron ore (Ericsson, 1999; Lundmark & Nilsson, 2003; Ng & Donker, 2013; Schmitz & Teixeira, 2008; Wårell, 2007; Wårell & Lundmark, 2008; Weston, Johnson, & Siu, 1999). For instance, Weston et al. (1999) described that technological change, globalization and freer trade, privatization and deregulation, industry instability, pressures for economies of scale, scope, and complementarities, and rising stock prices, low interest rates, strong economic growth have multiplied the forms and sources of competition in the industries, especially oil business (pp. 150-151). In particular, we propose that the market for acquisitions in dynamic industries has markedly increased all over the world due to cost advantages from merged firm, better integration of operational activities and internalization of markets. Extant research indicated that firms participating in horizontal integration have seen a positive impact on overall firm value, while firms entering unrelated business through acquisition mode have seen a negative impact. Albeit, research also suggested that the welfare measures in the oil and iron ore industries has adversely affected by mergers including horizontal modes, which is a contrasting result when compared to the expectations at the time of the merger (Wårell, 2007; Wårell & Lundmark, 2008). Overall, mergers and privatization of sovereign companies in extractive industries not only have a positive impact on firm value but also improve productivity of the target firm (Schmitz & Teixeira, 2008). However, acquiring firms must not decline the interest in promoting community relationships and improving welfare measures at both employee and society level (Dupuy, 2014; Eklund, 2014).

On one hand, emerging markets that characterize strict regulatory norms relating to mergers and inward investment in extractive industries should deregulate for aspiring better economic prospects include job creation and income generation. In a recent study, Hunter (2014) suggested that objective-based or principal-based regulation is an efficient method of regulating oil business, because it reduces both regulator burden and social costs when compared to rule-based system. On the other hand, multinational enterprises aiming to enter in emerging markets must have clarity on legal framework relating to investment proposals, tariff barriers, tax schemes, industry competition, and more importantly the role of state-owned enterprises. In addition, they should be cautious when entering in countries like India due to the high-level of government and political intervention particularly in overseas investment proposals that focus on natural resources industry. Herewith, we suggest that bilateral trade relations, institutional environment, the political situation and cultural attributes have serious effects on direct international investments through either greenfield or acquisition method.

6.2 Conclusions

This paper has aimed to analyze three litigated cross-border inbound acquisitions in India using qualitative case study method. It performed both individual case analysis and cross-case analysis to explore critical findings, which would benefit not only researchers in management but also help multinational managers participating in overseas deals particularly refer to dynamic industries like oil and gas exploration, mining, telecom and automobile. We therefore recapitulate that (i) Vodafone-Hutchison deal has been long-time delayed in light of legal dispute defining international taxation due to weak institutional environment in which the deal has no nexus with Indian territory that does not allow government to levy capital gains tax on the deal amount; (ii) Bharti Airtel-MTN deal has become unsuccessful even in the second innings of discussions due to weak financial market laws [cross-listing], government and political intervention, and somewhat culture distance between India and South Africa; and (iii) Vedanta-Cairn India deal has delayed, but later completed after 16 months of government approval in which the transaction has attracted both due diligence issues [royalty payments) and government interference. We thus propose that sampling cases have strikingly affected by host country-specific attributes such as financial market regulations, political environment, government intervention and its erratic behavior, and cultural distance.

Yet, the study carried out within the limitations that remain to use of secondary data sources. Taking forward, we suggest that research on foreign deals characterizing delay, fail, litigation, tax dispute, government intervention, political influence, white collar issues in due diligence, higher valuation, counter bids and integration problems would add significant contribution and new knowledge to the cross-border M&As stream. In particular, a cross-disciplinary study among developed and emerging markets, between dynamic industries deserves further exploration for assorted foreign investment policies.

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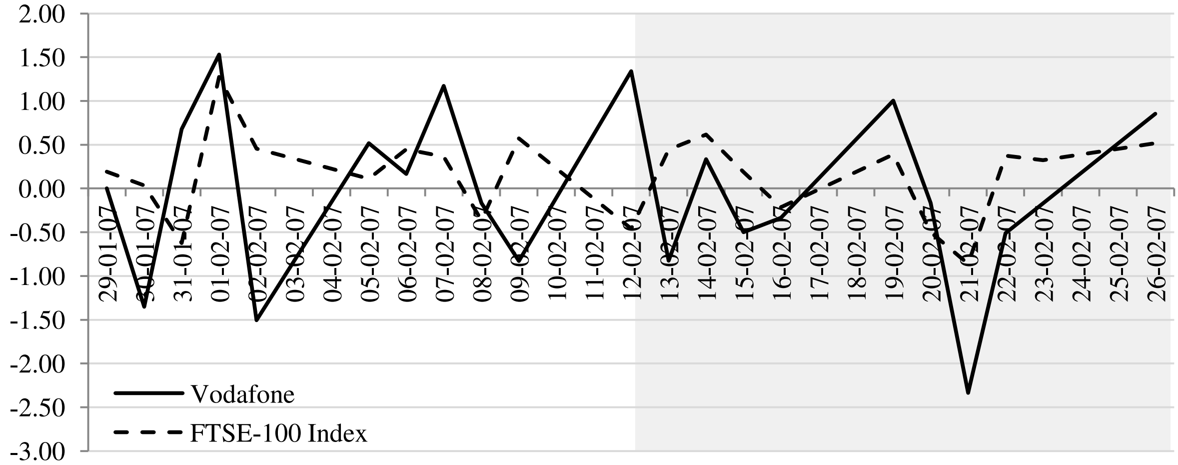


Fig. 1.1 Vodafone stock returns around acquisition announcement

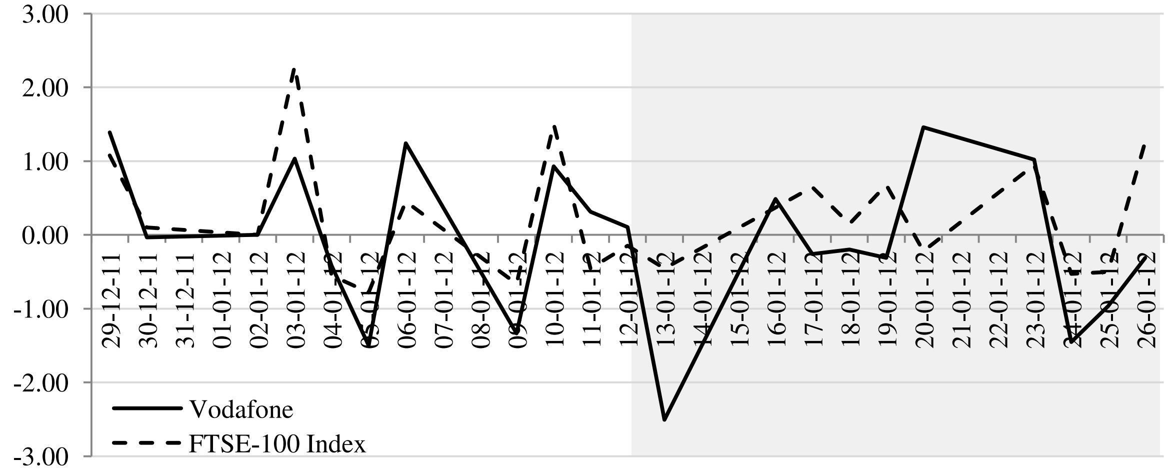


Fig. 1.2 Vodafone stock returns around the incident (win over the tax plea in India)

(source: Authors plot the graphs based on data analysis)

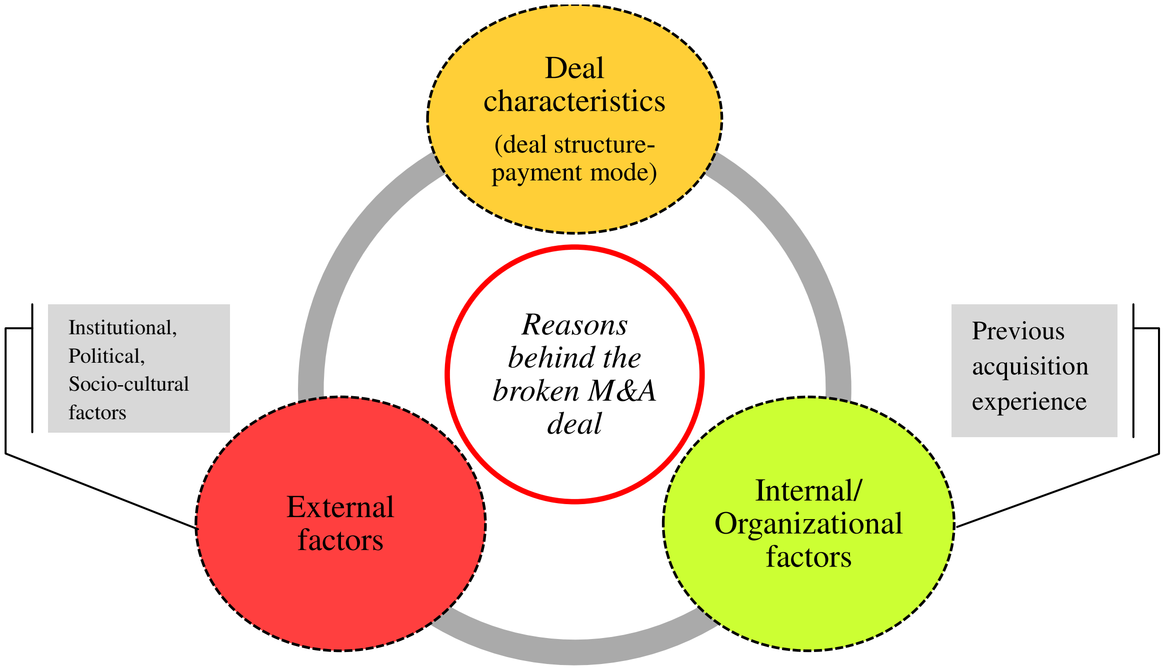


Fig. 2 Reasons behind the unsuccessful Bharti Airtel-MTN deal

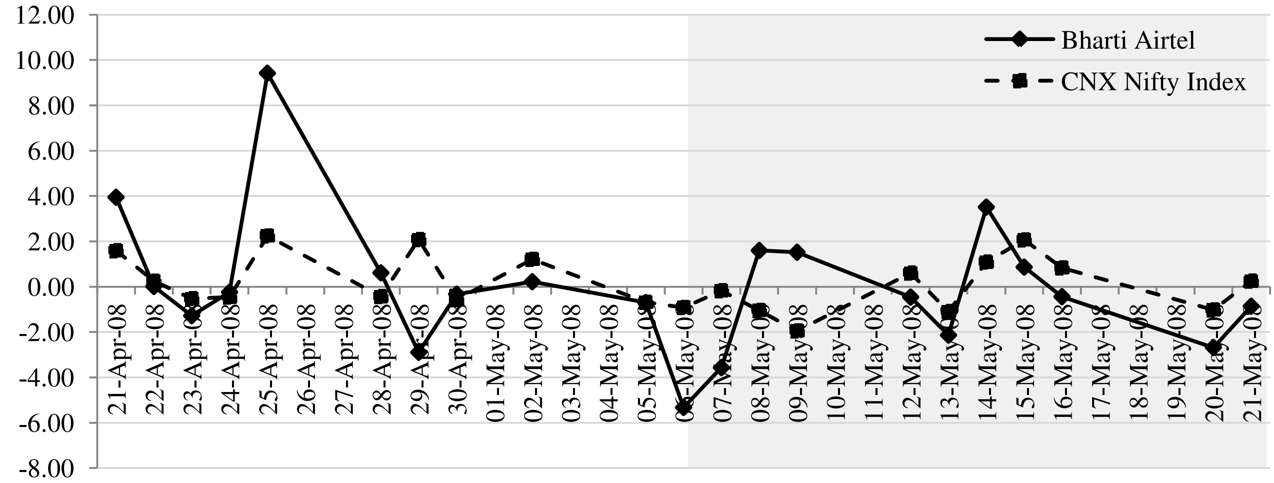


Fig. 3.1 Bharti Airtel stock returns around the announcement (first innings)

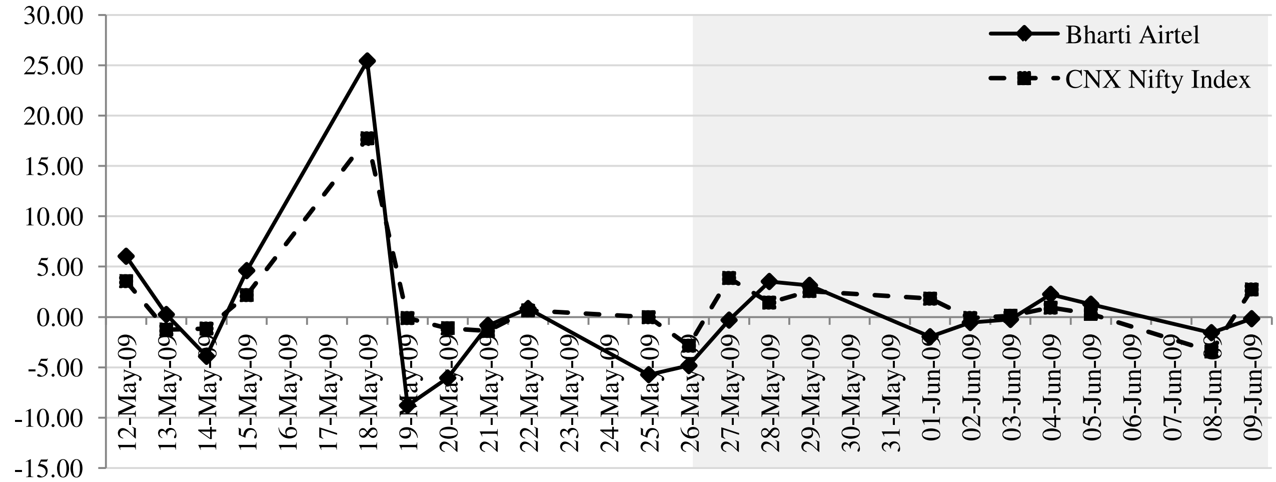


Fig. 3.2 Bharti Airtel stock returns around the announcement (second innings)

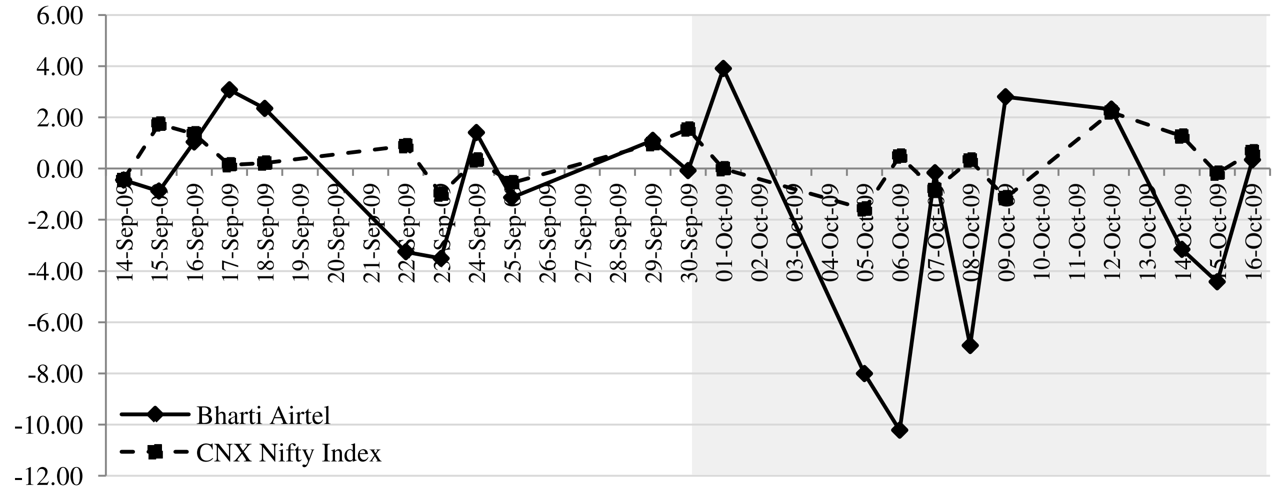


Fig. 3.3 Bharti Airtel stock returns around the announcement (unsuccessful)

(source: Authors plot the graphs based on data analysis)

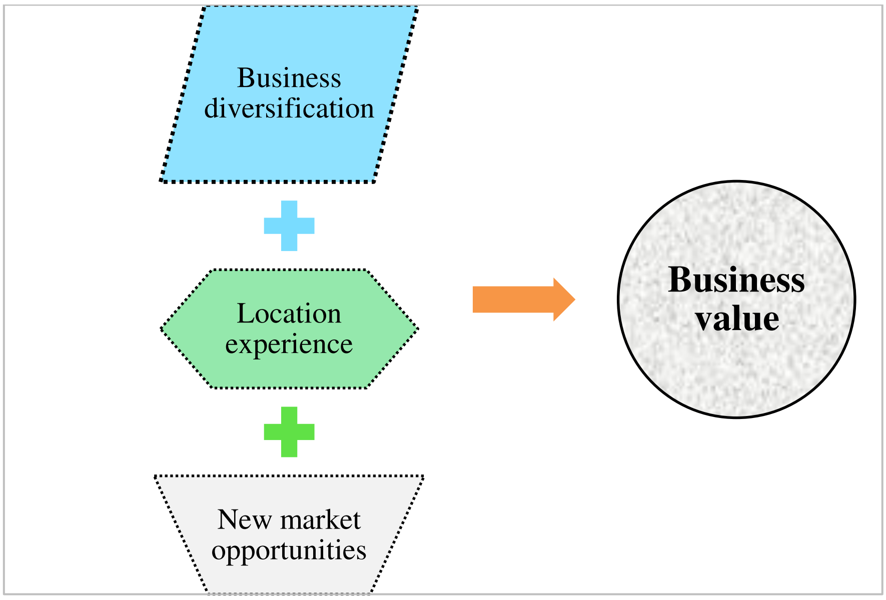


Fig. 4 Strategic motives of Vedanta acquisition of Cairn India

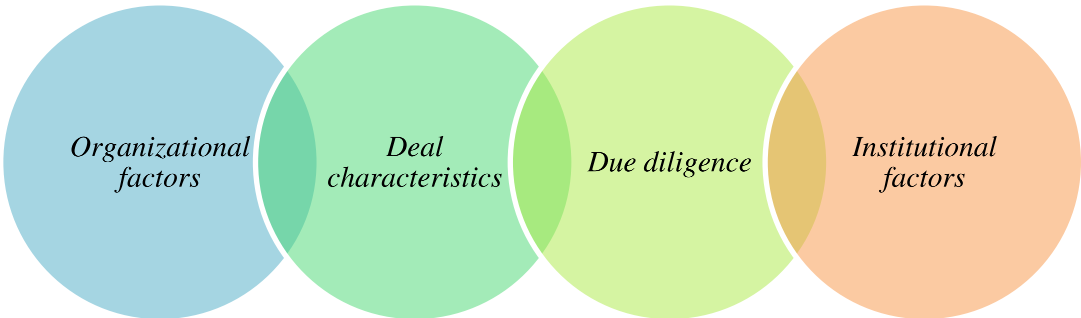


Fig. 5 Reasons behind the delayed deal between Vedanta and Cairn India

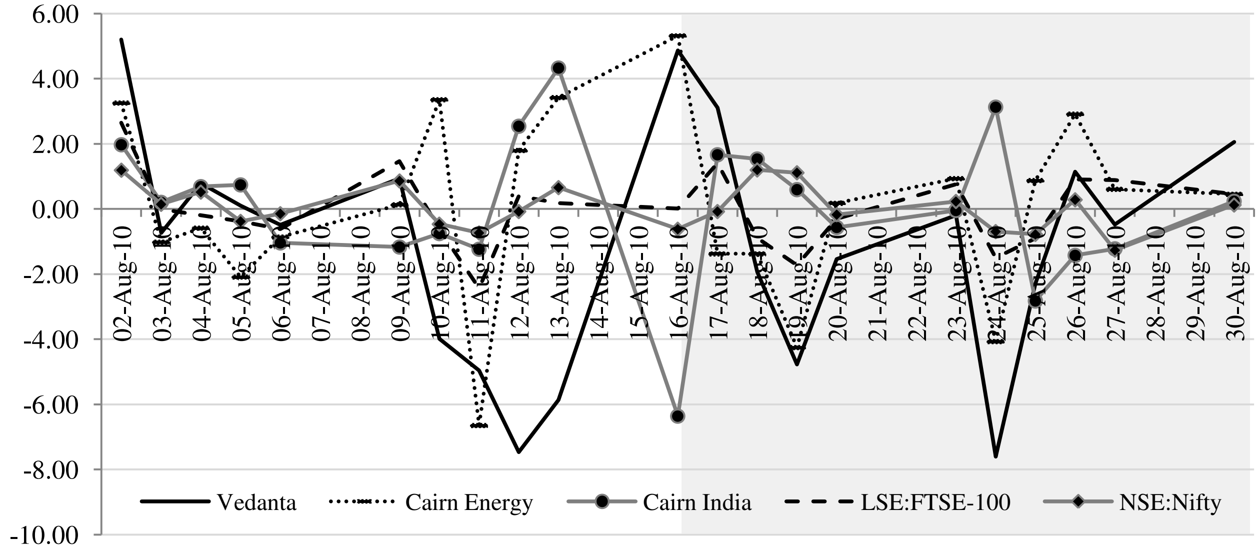


Fig. 6 Stock returns for Vedanta, Cairn Energy and Cairn India around announcement

(source: Authors plot the graph based on data analysis)

Table 1. Cross-case analysis of sampling cases

Determinant	*Description*	*Vodafone-Hutchison deal*	*Bharti Airtel-MTN deal*	*Vedanta-Cairn India deal*
A. Characteristics of the acquiring and target firms				
Definition of the deal	Successful, delayed and then completed, or broken	Completed, but legally challenged (tax plea)	unsuccessful cross-border negotiations	Delayed, but later completed
Type of the deal	Cross-border inbound (outbound) acquisition	Inbound	Inbound and outbound	Inbound
Classification of the deal	Mergers, acquisition, or takeover	Acquisition	Merger	Acquisition
Continental/region of the acquirer	It refers to the geography of the participating party	Europe	Africa and Asia	Europe
Target	It refers to the geography of the participating party	Asia	Asia and Africa	Asia
Title of the acquirer	Registered name of the firm	Vodafone Group Plc	MTN Group Limited and Bharti Airtel Ltd	Vedanta Resources Plc
Target	Registered name of the firm	Hutchison Essar Ltd through acquiring CGP Investment share	Bharti Airtel Ltd and MTN Group Limited	Cairn India Ltd through acquiring Cairn Energy Plc
Business profile of the acquirer	Nature of the business operations	Telecommunications	Diversified business group and Telecommunications	Diversified business group
Target	Nature of the business operations	Diversified business group	Telecommunications and Diversified business group	Oil exploration
H.Q/country of the acquirer	Registered headquarters of the firm	London/United Kingdom	Johannesburg/South Africa and New Delhi/India	London/United Kingdom
Target	Registered headquarters of the firm	Mumbai/India	New Delhi/India and Johannesburg/South Africa	Gurgaon/India
Establishment of acquirer	Year of establishment	1982	1994 and 1995	1976 (Indian origin)
Target	Year of establishment	Prior to 2000	1995 and 1994	2007
Ownership pattern of acquirer	Publicly listed firm, private limited firm, public sector	Publicly listed firm	Publicly listed firm	Publicly listed firm

	undertaking, or subsidiary firm			
Target	Publicly listed firm, private limited firm, public sector undertaking, or subsidiary firm	Subsidiary firm	Publicly listed firm	Publicly listed firm
Status of acquirer	Local company or internationalized company	International outlook	International outlook and National outlook	International outlook
Target	Local company or internationalized company	International outlook	National outlook and International outlook	International outlook
Prior acquisition experience of acquirer	It refers to the prior experience in deal making at international settings.	*Yes* For instance, Vodafone has acquired Mannesmann AG, German telecom company in 2000.	Bharti Airtel has prior acquisition experience in domestic deals, for example, in 2001 it has acquired Spice Telecom operations in Kolkata, and majority stake in SkyCell.	*Yes* For instance, In 2007, Vedanta acquired 51% controlling stake in Sesa Goa Limited, the India's largest producer and exporter of iron ore company.
Target	It refers to the prior experience in deal making at international settings.	*Yes* For example, HWL has indirect control in the Indian-joint venture Hutchison-Essar Limited through holding controlling interest in HTIL.	-	-
B. Typical attributes of the deal				
Number of rounds	Continuation of the deal refers to 1, other wise 2.	1	2	1
Start date	When negotiations were initiated	February 11, 2007 (Dec 23, 2006: first appeared in media)	May 6, 2008	August 16, 2010
Closing date	When negotiations or deal was completed	May 8, 2007	September 30, 2009	December 8, 2011
Deal announcement	The formal announcement of the deal by acquiring firm and/or target firm	February 11, 2007	First Innings: May 6, 2008 Second Innings: May 26, 2009 Deal called-off: Sept 30, 2009	August 16, 2010
Payment structure of the deal (stock/cash, or both)	It refers to the acquiring firm payment method in the form of cash, stock or both.	Cash	Stock and Cash	Cash and Stock
Deal value (announced)	Deal value	US$11.2 billion	US$23 billion	US$8.67 billion

Motive of the acquirer	It refers to the various motives of acquirer behind involving in international acquisition with concerned target firm.	▪ To achieve emerging markets advantage ▪ To pursue global diversification ▪ To gain market share ▪ To gain competitive advantage ▪ To improve business value and network	▪ To gain low-end markets advantage ▪ To pursue international diversification ▪ To gain market share ▪ To improve economies of scale ▪ To get benefits from technology transfer ▪ To hold ownership advantages	▪ To access emerging markets ▪ To be a conglomerated diversification firm ▪ To improve business value ▪ To gain location advantage due to their previous and ongoing experience and expertise ▪ To pursue new business opportunities
Motive of the target	It refers to the various motives of target firm behind involving in international acquisition with concerned bidding firm.	> Better valuation of the firm > Significant return on investment > To hedge the liability of localness in the market	> To gain low-end markets advantage > To pursue international diversification > To gain market share > To improve economies of scale > To get benefits from technology transfer > To hold ownership advantages	> Better valuation of the firm > To prevent from liability of localness problems in host country > To hedge uncertainty in the business, heavy government control, political intervention > To invest in other growth markets through the amount received from this deal
Synergistic benefits	It refers to the benefits transferred to acquiring firm due to participation in deal with the concerned target firm.	Market share, sales, and network (number of subscribers)	Market share, sales, ownership advantage, technology benefits, and network (number of subscribers)	Improve overall firm value of diversified business group (e.g., market capitalization)
C. Determinants of the deal				
Firm-specific attributes	It refers to different characteristics of acquiring firm: status of the company, ownership structure, previous acquisition experience, and financial performance.	○ Ownership benefits ○ International outlook ○ Deep pockets through maintaining fire sales ○ Previous acquisition experience ○ Global market share and competitive advantage ○ Advanced technology	*Bharti Airtel:* ○ Family ownership style ○ Publicly listed firm ○ Market leader in the Indian telecom market ○ Local competitive advantage ○ Deep pockets through managing fire sales in the	○ Indian origin business group ○ International outlook ○ Previous and ongoing experience in doing business in India ○ Previous acquisition experience in India ○ Experienced management

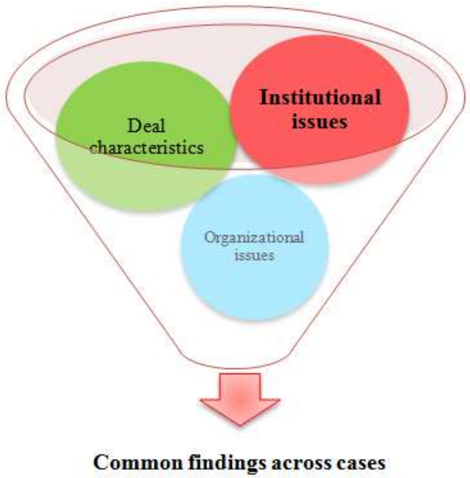
		o Internalization and cost cutting through integrating various markets	local market o No international outlook o No prior international acquisition experience *MTN Group:* o Publicly owned though government-allied shareholders o International outlook o Product and service advantage o Technology benefits o Deep pockets through managing fire sales in the local market o No previous acquisition experience o Competitive advantage over the African market	and control o Diversified business o Economies of scale through internalization of various businesses o Deep pockets and financing skills among subsidiary firms o No previous trading experience in oil exploration
Deal-specific attributes	It refers to characteristics of the international acquisition: deal structure, deal type, payment mode, M&A advisors to the deal and their previous experience, deal breakup fee, non-compete fee.	Offshore acquisition > no territory connection with India > cash deal > experienced global M&A advisors > no information related to deal breakup fee and non-compete fee.	Cross-border merger > dual listing > dual equity structure > both stock and cash payment > few investment bankers agreed to finance the deal > needs government approval for open offers program > M&A advisors somewhat failed to materialize the deal > seems to that M&A advisors have no sophisticated deal making experience in emerging markets like India and Africa.	> No counter-bids from domestic and international owners > Vedanta has paid non-compete fee, a sum of Rs. 50 per equity share to Cairn Energy for not to operate the same business in India, Sri Lanka and Bhutan over the next three years > both open offers program and payment structure were confused.
Country-specific	economic and financial market	Tax plea > weak legal and	Institutional dichotomous law is	Higher levels of government

attributes	indicators, institutional attributes, political factors (including corruption), accounting, valuation and taxation laws, geographical factors and cultural factors	regulatory environment > bureaucratic administration > erratic behavior of government officials including tax department > institutional distance between two countries for various reasons including accounting, taxation, and expertise.	"dual listing" > laws and regulations related to M&As > political factors including bureaucratic administration > cultural distance between two countries > political influence and government intervention of two countries.	control in the given oil industry > open offers program conflicts with SEBI > erratic behavior of institutional bodies ministries and regulatory bodies > ruling political party intervention.
D. Stock performance around the announcement				
Stock performance of acquiring firm	Positive or negative	Vodafone shareholders received significant returns on the announcement day (12 Feb 2007), but not on the day when Vodafone won the tax plea case (12 Jan 2012). Abnormal return on the announcement day was 1.8%.	Bharti Airtel: *First innings (6 May 2008):* Stock price declined by 5.32% on the announcement day, which was significantly higher than the decline in market returns 0.92%. *Second innings (26 May 2009):* Stock price again crashed by 4.83% on the announcement day, which was higher than the decline in market returns 2.85%. *Deal cancelled (September 30 2009):* Stock price raised by 3.90% on October 1, 2009, while market returns slightly declined by 0.01%.	Vedanta Resources: Vedanta shareholders received significant higher returns on the announcement day (4.87%) compared to market returns (0.01%). Stock price gained by 3.11% after the immediate announcement day.
Stock performance of target firm	Positive or negative	-	MTN Group: Stock price has increased by 657 rand (ZAR) due to broken negotiations with Bharti Airtel.	Cairn Energy: Shareholders experienced significant higher returns on the announcement day (5.32%) compared to market returns (0.01%).

				Stock price found to be declined by 1.38% after the immediate announcement day. <u>Cairn India:</u> Stock price declined by 6.36% on the announcement day that was higher than the market returns (-0.62%). Stock returns gained by 1.67% on the day after the immediate announcement. In sum, both stocks found to be positive for two days before the announcement.
E. Understanding and learning		We support the Apex court decision that Vodafone is not supposed to pay any more capital gain taxes to the government in the view of Hutchison acquisition. We argue that the behavior of various ministries have influenced by politicking for seeking self-benefit from Vodafone in the form of bribe or corruption. Due to delay in judgment, Vodafone's legal cost might have raised for reasons such as legal fees and communication cost.	We argue lack of experience in deal making, which linking emerging markets unfavorably result in deal success. We suggest that the institutional dichotomous behavior of host country adversely affects inbound deals; at the same time, local firms make deals in foreign countries to escape home country legal and political environment.	We argue that deal has been delayed (later, completed) due to institutional regime accountable for open offers program and royalty payments because of higher levels of government control where ONGC has pre-emptive right issues. In addition, ownership choice, political factors and bureaucratic erratic behavior and due diligence issues found to be influential attributes.
F. Implications for host country and multinational		The case would be a good lesson	The case would help managers	We advise that MNCs from

managers	for countries hosting foreign investments and acquisitions. It would be a piece of policy matters for various government departments including tax authorities, and local entrepreneurs, foreign investors, and society, as well. We suggest that acquiring firm managers understanding local government elite, ruling party influence, political intervention, government administration will make international negotiations success in host countries.	of both acquirer and target firms, and M&A advisory firms while making future attempts in merging countries like India and South Africa. Host country government will have special attention on revising regulations relating to financial markets such as international listing, mobilization of foreign capital, technology transfer, and so forth of trade and investment related aspects.	developed and emerging countries participating in cross-border M&As, takeovers, joint ventures and alliances should pay more attention to *due diligence* (pre-emptive rights, contracts, contingent issues), and *country-specific issues* (institutional norms and political and government involvement). In fact, knowledge on host-country administration procedures enhances the understanding of legal and political environment.

G. Common findings across cases:



Firm-specific factors	• Two acquiring firms (Vodafone and Vedanta) were based in European Union, UK, listed on London Stock Exchange, and have international outlook. • Two acquiring firms have come from developed country status. • Two acquiring firms (Vodafone and Vedanta) have significant prior acquisition experience. • Two acquiring firms (Vodafone and Vedanta) have sophisticated management expertise. • All firms participating in acquisitions have considerable cash reserves or deep pockets. • The common motive behind all acquiring firms was to improve business value by expanding the existing product and market portfolio into emerging markets.
Deal-specific factors	• All three deals were cross-continental acquisitions. • Two deals were appeared in the same continental of Europe (Vodafone, Vedanta) • Two deals were delayed at pre-merger negotiations (Bharti Airtel-MTN, Vedanta-Cairn India). • Two deals were successful in which acquiring firms have come from developed countries. • Two deals were successful, and from the same home country, UK (Vodafone, Vedanta). • Two deals were cross-border inbound acquisitions, horizontal category (Vodafone-Hutchison, Vedanta- Cairn India). • Two deals were related to telecommunications business (Vodafone-Hutchison, Bharti Airtel-MTN Group). • Two deals (Vodafone-Hutchison, Vedanta-Cairn India) that 'inward nature' have focused on ownership benefits and equity interest (more than 50% equity capital). • All three deals targeted on controlling and management of the post-acquisition firm. • Two deals (Vedanta-Cairn India, Bharti Airtel-MTN) have exercised the mixed payment option that is cash and stock. • All three deals were significantly higher in terms of deal value that is more than US$9 billion (average of three deals equals to US$14.6 billion).

Country-specific determinants	• The distance between host country and home country was common for two deals (Vodafone, Vedanta). • All three deals were publicly attention through media (print and electronic). • All three deals were injected by erratic behavior of government authorities. • Underdeveloped institutional laws and provisions dejected all three deals. • Two deals have been litigated by ruling political party intervention. • Two deals were attracted the attention of SEBI in lieu of open offers program under the SAST Regulations, 1997 or Takeover Code. • All three deals were bigger in terms of deal value, which influenced by ruling party politicians for self benefits or corruption. • The important, common finding of the research is that government officials' erratic nature and ruling political party influence would be more in foreign inward deals that characterize higher bid value, listed company, and cash payment.

Appendix 1. Indian telecom services performance indicators

	Description	2002 December	2005 December	2006[a] December	2011 December	2012 June
I. Subscriber's base (in millions)						
1	Wireline	38.33	48.84	40.30	32.69	31.43
2	Wireless (GSM and CDMA)	6.54	75.94	149.62	893.84	934.09
3	Gross total (Rate of growth %)[b]	44.87	124.78 (178)	189.92 (52)	926.53 (388)	965.52 (4)
II. Traffic						
4	Mobile: GSM (CDMA) [minutes of use/ sub/month]	210	393 (462)	454 (424)	332 (226)	346 (229)
III. Average revenue per user						
5	Wireless [INR (US$)/sub/month][e]	871 (15.92)	GSM: 362 (6.61) CDMA: 256 (4.68)	GSM: 316 (5.77) CDMA: 196 (3.58)	GSM: 95.77 (1.75) CDMA: 73.46 (1.34)	GSM: 95.47 (1.74) CDMA: 74.90 (1.37)
IV. Teledensity						
6	Population in million (estimated)	1048	1092	1107	1206	1213
7	Wireline	3.66	4.47	3.64	2.71	2.59
8	Wireless	0.62	6.95	13.52	74.15	76.99
9	Gross total (Rate of growth %)[b]	4.28	11.43 (167)	17.16 (50)	76.86 (348)	79.58 (3.5)
V. Internet subscriber's base (in millions)						
10	Internet: broadband	-	6.70	8.58	22.39; wireless: 431.37	23.01; wireless: 460.84
11	Minutes of use (MOU/ subs/month)	-	189	190	[c]	[c]
12	Average revenue per user (INR (US$)/subs/month)[e]	-	210 (3.84)	205 (3.75)	[c]	[c]
VI. Hutch-Essar Limited (now, Vodafone India Limited) gross information						
13	Wireless subscriber base (in millions) [Rate of growth %]	2.02	11.41 (465%)	23.31 (104%)	147.75 (534%)	153.71 (4%)
14	Market share (%)[d]	18.75	15.03	22.12	16.53	16.46
15	Market leader (position)	3	4	3	3	3
16	Gross revenue (US$ billions)[e]	-	-	-	1.49	1.54

Source: Compiled from TRAI for the years 2004, 2007 and 2012 (http://www.trai.gov.in/).

Notes:

[a] We assume that Hutchison could have operated until February 2007 and then Vodafone would have started from that period, because the deal has announced in media in February, thus finally completed in May 2007 (see VGP-AR, 2007).

[b] We compute rate of growth based on gross total, for instance, rate of growth for the year ended December 2006 would be "((value of the year 2006 – value of the year 2005)/ value of the year 2005) × 100".

[c] The total revenue of the internet services as reported by ISPs was US$ 0.52 billion for the quarter ending Jun-12 as compared to US$ 0.53 billion for the quarter ending Mar-12, showing a decrease of 3.27% (TRAI, 2012).

[d] Market share based on 'number of mobile subscribers'; In India, most of the market share is gained by Indian-origin conglomerates Bharti Airtel (1st position with 20.05%), Reliance (2nd position with 16.55%), and then Vodafone (3rd position with 16.46%), followed by Idea (4th position with 12.54%) ... and BSNL, among others.

[e] The amount expressed in Indian currency has converted into US dollars at the exchange rate INR 54.72 (Dated: November 06, 2012); moreover, 40% Vodafone's revenue comes from the rural sector, and the remaining from urban and semi-urban.

[f] As of June 2012, there are 14 (GSM and CDMA) service providers and eight wireline providers in India.

[g] From March 2012 onward, Vodafone had entered Fixed-line services, and it does not provide CDMA services. Indeed, it is permitted all over India. Further, it is one of the 21 operators in international long distance service licensees in India (TRAI, 2012).

[h] See the overview of Indian telecommunications market during 2011-2012 (TRAI, 2012, pp. i-ii).

[i] Abbreviations: ARPU – average revenue per user; CDMA – code division multiple access; GSM – global systems for mobile communications; INR – Indian rupee is the official currency of India; ISP – internet service provider; MOU – minutes of use; TRAI – telecom regulatory authority of India.