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2016

Online at https://mpra.ub.uni-muenchen.de/74264/
MPRA Paper No. 74264, posted 04 Oct 2016 13:22 UTC

Institutional Voids and Tax litigation in Emerging Economies: The *verdict of* **Vodafone** *cross-border acquisition of* **Hutchison**

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First draft 2012-13

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Abstract

Extensive research on cross-border mergers and acquisitions performed in different institutional settings shows that legal and regulatory infrastructure, level of investor protection, and key macroeconomic factors are the most important determinants. With this in mind, we analyze and discuss the telecommunications market leader Vodafone's cross-border acquisition of Hutchison equity stake in CGP Investments, which has long-time delayed (litigated) in an Asian emerging market–India–in the view of corporate gains tax. Regarding theory testing and development, we test 14 theories and two theorems that have propounded in five management research forums, namely international economics, international business (IB), strategic management, organization studies, and corporate finance. Further, based on shortcomings of the existing theories we develop new theory–Farmers Fox Theory–and offer lawful propositions for future research that would advance the existing IB knowledge on *Institutional Voids in Emerging Economies*. We therefore conclude that a given country's weak regulatory system benefits both the acquirer and the target firm; at the same time, this economic behavior would adversely affect its fiscal income or budget. Lastly, we offer some policy guidelines for legal and regulatory system, and suggest fruitful recommendations for multinational managers.

JEL Classification: F21; F23; G34; H25; K34

Keywords: Cross-border mergers and acquisitions; Foreign direct investment; Hutchison Whampoa; Vodafone; Internationalization; Corporate governance; Emerging economies; Liability of foreignness; Institutional and regulatory framework.

Important notes to Readers:

Thank you very much for reading my academic work.

This draft was prepared as part of my doctoral thesis carried out at the IIT Roorkee, India during the period Dec 2009 – Sept 2014. Due to paper's length, several rounds of revisions and cross-checks under the guidance of my doctoral supervisors, this draft has been extensively developed and eventually un/published in the following journals. Therefore, if you consider citing this draft, you may have to consider citing the following articles.

You may also search my full-list of academic publications on the *Google Scholar* with full name as appeared on the first page of this draft.
Also, see http://econpapers.repec.org/RAS/pko531.htm

I hope this draft would help MBA faculty in teaching M&A and strategic management.

Review article:

Reddy, K. S. (2014). Extant reviews on entry-mode/internationalization, mergers & acquisitions, and diversification: Understanding theories and establishing interdisciplinary research. *Pacific Science Review*, *16*(4), 250-274.

Legal article:

Reddy, K. S. (2016). Regulatory framework of mergers and acquisitions: A review of Indian statutory compliances and policy recommendations. *International Journal of Law and Management*, *58*(2), 197-215.

Case related work:

Reddy, K. S., Nangia, V. K., & Agrawal, R. (2014). Farmers Fox Theory: does a country's weak regulatory system benefit both the acquirer and the target firm? Evidence from Vodafone-Hutchison deal. *International Strategic Management Review*, *2*(1), 56-67.
Reddy, K. S. (2015). Revisiting and reinforcing the Farmers Fox theory: A study (test) of three cases in cross-border inbound acquisitions. https://mpra.ub.uni-muenchen.de/63561/1/MPRA_paper_63561.pdf
Reddy, K. S. (2015). Why do Cross-border Merger/Acquisition Deals become Delayed, or Unsuccessful?–A Cross-Case Analysis in the Dynamic Industries. https://mpra.ub.uni-muenchen.de/63940/1/MPRA_paper_63940.pdf

1. Introduction

> In Hymer's view, "modern multinational enterprises (MNEs) are interested in manufacturing in underdeveloped countries and not just in raw materials and therefore want a growing market for advanced products and an educated, urbanized labour force" (Hymer, 1970: 447). Thus, "international business environment is an amorphous aggregate of several elements that differ along geographical, social, political and economic dimensions […] for instance, geography, economy or culture, remain relatively stable over time, while others like exchange rates are more volatile" (Sethi and Guisinger, 2002: 228). Furthermore, it is fact that "foreign subsidiaries experience a competitive disadvantage, because local firms have better information about the local competitive environment, including the economy, language, social needs and preferences, law, and politics" (Bell et al., 2012: 109), just to mention a few.

The above paragraph or a synopsis of the valid previous contributions has raised two important questions. First, who have developed theories like theory of foreign direct investment (FDI), internalization theory, institutional theory, organizational learning theory, and so forth? Our straightforward answer is 'researchers in economics and social sciences'. Second, are these theories in economics or social sciences developed based on evidence, reliability and assumption? Thus, our specific answer is 'no (or, not all)'; however, some theories like those that information asymmetry theory, liability of foreignness, and theories in psychology have developed based on both theoretical backdrop and empirical evidence. Hence, our intention is not at reviewing or criticizing the theories that have advocated in business and economics field. Regarding international business (IB) research, most scholars have brought different theories of different research forums (for instance, economics, psychology, politics, finance, accounting, and strategic management), and tested those theories in international, global and cross-country perspectives. Of course, there are some important theories developed by IB scholars, for instance, theory of firm internationalization (Johanson and Vahlne, 1977), liability of foreignness (Zaheer, 1995), and theorems like subsidiary-specific advantages (Rugman and Verbeke, 2001) and learning-by-doing (Collins et al., 2009). Indeed, most of the theories, too, are complimentary, rather than substitutable, to each other (Dunning, 2000).[1] Although, the theories that developed in other streams and tested in IB are not perfect-fit to explain the current IB environment that is evolved across the cosmos. On the other hand, we found significant editorial and commentary articles on problems (prospects) in IB (e.g. Caves, 1998; Peng, 2004) and qualitative research in IB (e.g. Birkinshaw et al., 2011; Doz, 2011; Tsang, forthcoming; Welch et al., 2011), which

[1] In his view, "I have frequently asserted that no single theory can be expected to satisfactorily encompass all kinds of foreign-owned value-added activity simply because the motivations for, and expectations from, such production vary a great deal" (Dunning, 2001: 176).

published in *Journal of International Business Studies* (JIBS), *Journal of World Business* (JWB), and *International Business Review* (IBR), just to name a few.

From the aforesaid paragraphs, we understand that there is a need, urgency and validity of theory development in IB. To do so, we use case study research, which is a well-established qualitative method for developing evidence-based theories that advance the – understanding of current global business scenario and existing knowledge of a given field (Yin, 1994, 2003). In particular, we analyze the world's long-time delayed cross-border deal in telecommunications sector–Vodafone-Hutchison deal–that is connected with an Asian emerging market 'India'. Regarding theory testing and development, we test 14 theories that have propounded in five management research forums, namely international economics, international business, strategic management, organization studies, and corporate finance. Therefore, based on shortcomings of the existing theories we develop or propose new theory 'Farmers Fox Theory', which would improve the contemporary IB knowledge. Thus, our theory suggests that "a country's weak institutional, regulatory, or legal framework would benefit both acquirer and target firm in a given international transaction; at the same time, this economic behaviour adversely affects its fiscal income, revenue or budget". The following sections, for example, literature support, case analysis and theory testing will develop it in greater depth. In particular, most existing theories (studies) frequently explain (test) the given data during the post-entry of MNEs in a given economic setting while our theory describes at the foreign market entry-level. To the best of our knowledge, the concept or importance of constitutional laws is largely ignored in IB research. In other words, our theory significantly differs from, per se, institutional theory and liability of foreignness. Lastly, we offer some policy implications for a given country's legal framework, and recommend some guidelines for multinational managers.

The key economic terms, for instance, "liberalization" and "globalization" are anonymously indebted to the developed economies and their ideologists, economists and policy thinkers. In light of dramatic economic-policy transformation, this credit is also acknowledged to both the world finance institutions (e.g. World Bank, International Monetary Fund) and developed-economies multinational enterprises (DMNEs). In due course of time, foreign investment, technology, human capital and other intangible resources of DMNEs have predictably engulfed developing economies, and thereafter absorbed (or, learned) by the emerging-economies multinational enterprises (EMNEs) (Reddy et al., 2013a; 2014b).[2] In this inflow, the better inorganic-strategy of strategic management, and the

[2] For instance, the annual consumption in emerging economies could increase from US$12 trillion to US$30 trillion, and occupy 70% of world economy growth by the year 2025 (McKinsey, 2012).

foreign market entry method of international business "cross-border merger/acquisition" option has become one of the EMNEs internationalization strategies (e.g. Peng, 2012; Ramamurti, 2012a, 2012b). By and large, a great amount of overseas investment crop up in the outward appearance of acquisitions (e.g. Becker and Fuest, 2010; Huizinga and Voget, 2009). For example, number of global foreign mergers or acquisitions has been increased from 23% of total volume in 1998 to 45% in 2007 (Erel et al., 2012). In particular, number of deals (deal value) of word economy cross-border mergers and acquisitions[3] (hereinafter, CB-M&As) has increased from 1,582 (US$21.09 billion) in 1991 to 7,018 (US$1,022.72 billion) in 2007 at a massive growth rate 344% (4,748%), and thereafter sharply declined to 5,769 (US$525.88 billion) in 2011 because of recent global financial crisis.[4] Indeed, the main drivers of these CB-M&A waves are being globalization, technological innovation, bull financial market, deregulation and privatization (Goergen et al., 2005).

Mergers and acquisitions are possibly the most aggressive strategic organizational response to resource dependence (Perez-Batres and Eden, 2008; Rugman and Hodgetts, 1995; Weston et al., 1998). Indeed, foreign merger or acquisition is a potential mode of entry into a global market (Andersen, 1997). Of course, acquisitions provide a rapid means to get access to the local market, for example, access to distribution outlets (Kotabe and Helsen, 2001: 304). Generally, a cross-border transaction takes place with the consent of at least two countries. Further, an acquisition involves the transfer of an asset between two owners of different countries who are taxed differently (see Becker and Fuest, 2010). In a transaction, if one country does not approve any of the terms explained in the given negotiation document, ultimately the deal is delayed, or is cancelled. Therefore, a country's governance system, constitutional framework, legal environment, trust and relationship, and culture play a key role in international negations, and their *ex-ante* and *ex-post* accounting earnings (e.g. Barbopoulos et al., 2012; Blonigen, 1997; Feito-Ruiz and Menéndez-Requejo, 2011; Georgieva et al., 2012). To be sure, the concept of law and governance in the view of CB-M&As, cross-border joint ventures, cross-country direct investments, international alliances, and multinational corporate ownership has extensively been investigated in (*on*) developed economies (e.g. Becker and Fuest, 2010; Erel et al., 2012; Kaplan, 1989; La Porta et al., 2000, 2002; Pablo, 2009; Schöllhammer, 1971). For example, in Barbopoulos et al. (2012); Bris et al. (2008); Collins et al. (2009); di Giovanni (2005); Fang et al. (2004); Francis et al. (2008); Georgieva et al. (2012); Moeller and Schlingemann (2005); and Rossi and Volpin

[3] Throughout this paper, the labels cross-border mergers and acquisitions, cross-country mergers and acquisitions, border-crossing mergers and acquisitions, and foreign mergers and acquisitions are used interchangeably.
[4] See UNCTAD (1992, 2008, 2012).

(2004), the authors show that legal framework, level of investor protection, cross-culture, corporate governance system, financial markets environment and quality of accounting standards are important factors while making deals triumphant, and the same factors could affect firm's value and profitability. In addition, a country's macroeconomic factors, such as, gross domestic product (GDP), tax system and tax incentives, exchange rate, and inflation rate likely to be influenced the border-crossing mergers or acquisitions (e.g. Hebous et al., 2011; Lee, 2013; Pablo, 2009; Reddy, 2014; Reddy et al., 2014b; Scholes and Wolfson, 1990; Uddin and Boateng, 2011). More importantly, local political events could affect foreign direct investments for both the inbound and outbound flows (e.g. Ezeoha and Ogamba, 2010; Schöllhammer and Nigh, 1984, 1986). In some instances, physical distance would play a role in international investments (Rose, 2000).

Developing economies have benefited from the developed economies research outcome, insights, ideas, and recommendations in many areas of a country's economic development, such as, deregulation, privatization, legal constitution, policy revolution, internationalization, and so forth of economic behaviors.[5] However, many emerging markets (EMs) have failed to show a good governance system in several international trade activities, especially foreign direct investments (FDIs) and cross-border acquisitions. For instance, a well-reputed EM in Asian region, Indian government had been utterly failed to take an appropriate action in FDI proposals (e.g., retail market, telecom sector), and CB-M&A deals.[6] During 1970-1980, Indian economists who had trained in western universities amusingly implemented the 1991's New Economic Policy reform for country's balanced regional development.[7] Thus, these policies have greatly encouraged DMNEs to invest in the country's major thrust areas. In particular, a major percentage of policies has adopted from developed countries like U.S., UK, Germany, France, and Australia. Positively, most policies should require a great amount of amendments, but policy makers and politicians have ended up with minor adjustments. As a result, Vodafone and other multinational giants in different sectors from different nations has (have) badly experienced to the put forth of regulatory authorities' peculiar guidelines. In fact, it is being a "stranger in a strange land" (see Eden and Miller, 2004). Thus, legal constituent of institutions or regulatory authorities

[5] See the globalization and growth in emerging markets (Stiglitz, 2004), and the institutional environment in BRICs (Luo et al., 2011: 194). Also, see the shifts in economic activity and growth between and within regions of the world (Guth, 2009: 253–255).

[6] For instance, Nangia et al. (2011) show a delayed oil and petroleum deal between Vedanta and UK's Cairn Energy. Reddy et al. (2012) show a broken telecom deal between Bharti Airtel and South Africa's MTN. On the other hand, see the similarities in cross-national M&As of Chinese firms during 1985-2006 (Yang and Hyland, 2012).

[7] See, for instance, Ahluwalia (2002), Bhole and Jitendra (2009), and Dongre (2012).

divulge strict controls in the form of policies, guidelines and rules that exist in the given economy (see Scott, 1995).

With this in mind, we outline our objective, and contribution to the IB literature. Most Indian and international societies, such as, investment bankers, merger and acquisition advisors, legal advisory firms, tax consultants, policy makers, and academic community – are thoroughly follow the India's biggest cross-border telecom deal between Vodafone and Hutchison Whampoa, and Vodafone's tax controversies with Union of India. Thus, Vodafone had faced worst cross-country tax litigations with Indian government for five years consecutively, 2007-2012. However, neither a finance researcher nor a law scholar has seriously investigated the Vodafone–Hutch deal with emphasis to international taxation and foreign investor protection. Therefore, our study would fulfill this important knowledge gap. We thus emphasize on tax litigation in cross-border deals that is attached with Indian government. In particular, we show India's CB-M&A market during 2000-2011, case background, and case analysis and discussions. We then arrive at a conclusion that tax authorities action against Vodafone's tax liability in light of withholding tax, and the retrospective policy announced in 2012 Budget framework – are two important perturbed issues that would damage the country's reputation and investor protection. Regarding theory testing and development, we test 14 theories propounded in five management research forums, for instance, eclectic paradigm (Dunning, 1977, 1980) and theory of FDI (Caves, 1971; Hymer, 1970, 1976) in international economics, Uppsala theory of firm internationalization (Johanson and Vahlne, 1977, Johanson and Wiedersheim-Paul, 1975) and theory of liability of foreignness (Zaheer, 1995) in IB, resource-based-view (RBV) theory (Penrose, 1959; Wernerfelt, 1984) in strategic management, institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977) in organization studies, and agency theory (Jensen and Meckling, 1976) in corporate finance, just to mention a few. In addition, we examine two theorems or hypotheses suggested in earlier research relating to multinational corporate ownership structures, headquarters and subsidiary-firm relations, and so forth of cross-national corporate behaviors. With this consistence (based on shortcomings of the existing IB theories), we develop a theory in light of regulatory framework – Farmers Fox Theory – for advances in IB knowledge and research. The selection of words 'Farmers' and 'Fox' are stubborn, hence they are purposeful (similar to Dunning's view, 1988). Further, we also offer some important propositions for new research. Lastly, we put forward some lawful proposals for improvement in the given country's M&A regulatory system, and suggest some guidelines for multinational managers.

While utilizing the MNE context, "theory building is the one with the biggest potential impact on theory, yet is very rarely used. In that, IB research is missing huge opportunities to claim a major contribution not only to the IB field but also to management theory in general" (Bello and Kostova, 2012: 542). In this setting, our contribution to the IB literature is fourfold. First, we put more emphasis on case analysis in the view of international taxation that would add some insights from the emerging economies context, for instance, institutional view and liability of foreignness. Second, our counterpoints and discussions, and policy recommendations would help tax authorities and multinational managers, thus append imperative contribution to the literature on security laws, for instance, investor protection, corporate ownership structure and CB-M&As. Third, our approach of theory testing and aligning case illustrations would advance the methodological perspective of case-study research especially in IB literature. Fourth and finally, our new theory and propositions would show the directions for future research. In addition, teaching instructors and faculty of IB courses can teach, analyze and discuss the given case, thus would improve their teaching pedagogy while establishing a real business situation in a squared lecture theater.

The remainder of the paper is set up as follows. Section 2 outlines the extensive literature on CB-M&As that study macroeconomic determinants and regulatory system. In Section 3, we explain the method that employed in this research paper. Section 4 shows India's CB-M&As market and regulatory framework. Section 5 presents the case information that includes telecommunications market environment, profile of Vodafone and Hutchison Whampoa, and time-line of the deal. Section 6 discusses point and counterpoint of the given case. In Section 7, we test various business theories, and propose new theory and offer lawful propositions. Section 8 suggests policy guidelines, and concludes.

2. Review of related literate on CB-M&As: A law and governance perspective

Given the outstanding backdrop to the study, we have collected and reviewed the studies that ranging from a macroeconomic determinant to a firm-specific determinant of CB-M&As.[8] We therefore outline the review of literature in two schools. First, it presents the extensive contributions on various factors, which determine foreign investments and cross-country acquisitions. Second, it draws a set of synopsis from the most relevant determinant of 'taxation' in foreign mergers investigations.

2.1. Review of studies related to foreign investment and CB-M&A deals

[8] See Hopkins (1999), Shimizu et al. (2004), and Slangen and Hennart (2007) for theoretical foundations, board literature review and different institutional perspectives of CB-M&As. Also, see Andersen (1997).

The research on 'ownership structure of MNEs' by Schöllhammer (1971) is a deep-seated setting to our paper.[9] In his view, corporate structures create superior value to the firm when it has multinationalized. Thus, a global expansion strategy is likely to be appealed by two essential channels, namely FDIs and M&As. More importantly, both the channels influence [favorable/unfavorable] by numerous economic, political, legal and so forth of institutional factors. For instance, Root (1968 In Schöllhammer and Nigh, 1984) states that "market opportunity and political risk are the most influential factors in investment decisions". Regarding the effect of political events on FDIs in Germany and Japan, Schöllhammer and Nigh (1984, 1986) observe that German firms invest in less advanced-economies; conversely, internal political conflicts in the host countries of the less advanced-world adversely affect foreign investments. On the other hand, intergovernmental networks or relationships, and relative weight of economic environment are important key factors in determining border-crossing investments by Japanese firms.[10]

La Porta et al. (2002) argue that strength [weakness] of an economic regulation or a legal framework would influence international investments. In other words, in Rossi and Volpin (2004), the authors suggest that mergers or acquisitions [volume] may increase and target firms improve their efficiency after merging with a company established in countries where a stronger investor protection offers. In fact, target firm usually adopts the accounting standards, disclosure practices, and governance structures of the acquiring firm (Bris et al., 2008). Further, Bris et al. describe that when there is no formal change of the domestic legal system, firms in a country may adopt different levels of investor protection, depending on the firms they merge.[11] Furthermore, in Bris and Cabolis (2008); Feito-Ruiz and Menéndez-Requejo (2011); and Moeller and Schlingemann (2005), the authors indicate that acquiring firms pay a higher premium for targets from countries with a weak regulatory setting or less institutional environment because of significant asymmetric information and agency issues.

In di Giovanni (2005: 145), the author examines CB-M&As dataset during 1990-1999, finds that financial variables and other institutional factors play a crucial job in both inbound and outbound capital flows. Thus, size of financial markets is one of the determinants when a domestic enterprise invests or acquires a firm abroad. The author estimations indicate that a 1% rise of the stock market to GDP ratio is associated with a

[9] Research by Schöllhammer (1971), study the different aspects of organization structure for 12 (4) MNEs located in the U.S. (European region). The author examines the structure of the relationships between the headquarters and its foreign operating units […] and organizational flexibility.
[10] While investigating the influence of political events on FDIs, the authors consider firm-specific factors, country-specific factors, industry-specific factors, and management-specific factors.
[11] See Bris et al. (2008) for exceptional contributions drew using a dataset of 15,000 CB-M&A deals (41 economies and 39 industries) during 1990–2001. Also, see Kuipers et al. (2009).

0.955% increase in CB-M&As activity. In case of U.S. foreign acquisitions, bidding firms benefit from mergers or acquisitions take place in economies with a worse or weak financial markets regulatory setting (see Francis et al., 2008). In other words, Feito-Ruiz and Menéndez-Requejo (2011) investigate the impact of the legal and institutional setting on acquiring firm returns around the CB-M&A announcements. They notice that stronger the financial regulatory system, and therefore bidder firm shareholders should experience positive returns, or else, weak [negative].[12] More recently, Barbopoulos et al. (2012: 1310) show that bidder firms of targets based in civil-law nations have outperformed to the deals based in common-law nations. Further, they suggest that buying a firm in economies where higher restrictions on capital mobility could add premium to the acquiring firm shareholders' wealth.[13] Similarly, Erel et al. (2012) suggest that geography or territory, quality of accounting disclosure and bilateral trade determinants rise the likelihood of M&As between two economies. They also mention that valuation is one of the key motives of foreign mergers, for instance, firms in countries whose capital market in terms of value and currency have augmented, and that has a significant market-to-book value tend to be acquirers, and targets otherwise.[14]

In a related study, Georgieva et al. (2012) investigate the impact of country's legal, cultural and business environment factors, industry factors as well as deal specific factors on the intensity of cross-border joint ventures. The authors suggest that U.S. firms are more likely to form joint ventures with firms from countries that have weak legal and regulatory setting.[15] For banking mergers, Karolyi and Taboada (2011) show that acquirers are typically from countries with lesser regulations, stronger guidelines for foreign bank entry, lesser restrictions on bank activities, and with established deposit insurance schemes. They observe that severe laws of the banking sector in the target economy likely cause a decline in the number of foreign mergers or acquisitions.[16]

In addition, Rose (2000 In Erel et al., 2012) mentions that physical distance could increase the cost of merger or combination. In other words, CB-M&A activities of Latin

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[12] See for fruitful implications of the investigation on 469 deals of European listed firms (221 CB-M&As and 248 local) between 2002 and 2006 (Feito-Ruiz and Menéndez-Requejo, 2011).

[13] For instance, the other important observations include bidder firms gain more from the acquisitions of targets situated in civil-law nations compared to … common-law nations (Barbopoulos et al., 2012).

[14] The authors examine the huge-dataset of 56,978 border-crossing M&A deals during 1990-2007 (Erel et al., 2012). Some of the key observations like "mergers are likely to happen between firms of economies that trade more commonly with one another" […].

[15] The important observation is that "cross-border joint ventures are optimal, low cost organizational form mitigating information asymmetries, hold-up costs, and poor contract enforceability, especially in environment with larger market imperfections" (Georgieva et al., 2012: 777).

[16] See for fruitful findings from the cross-country banking-mergers research by Karolyi and Taboada (2011), use a significant dataset of 9,121 domestic and 2,486 cross-border deals during 1995-2008.

American region are positively affected by the economic freedom and business conditions in target country (see Pablo, 2009). Likewise, Uddin and Boateng (2011) examine the macroeconomic determinants of foreign acquisitions in UK market. They suggest that a country's GDP, exchange rate and interest rate are likely to influence a local enterprise while buying a firm in other economies. More specifically, Blonigen (1997 In Lee, 2013) explores a link between exchange rates and FDIs. The author develops a model where the assets acquired in an acquisition are easily moveable within the firm, thus able to produce returns in any currency. Indeed, a currency movements is one the important determinants of foreign M&As (Erel et al., 2012). Lee (2013) examines five of the top investing countries [Australia, Canada, Japan, the United Kingdom, and the United States] for CB-M&As during 1989-2007. The author shows that exchange rate is one of the key determinants for inbound-FDI to the U.S. economy but not for inbound-FDI to other developed markets. On the other hand, culture is one of the determinants of border-crossing investments or acquisitions. Fang et al. (2004) examine the merger of Telia–Telenor failure case; they observe that historical sentiments, feelings and emotions are some of the significant variables that would damage cross-cultural business models [if ignored]. Likewise, Collins et al. (2009) show that cultural distance between two countries and political uncertainty has linked inversely with cross-border acquisitions.

In sum, we argue that a nation's macroeconomic factors, for instance, GDP, exchange rate, bilateral trade relations and interest rate; and financial system and regulatory setting issues, for example, level of investor protection and quality of accounting standards – would influence border-crossing mergers or acquisitions. Further, we also realize that political events and governmental relationships play a vital job in FDI inflows (outflows).

2.2. Review of studies related to Taxation as a determinant in CB-M&A deals

In Petruzzi (1988: 109), the author states that taxation is likely a motive for merger waves, in which suggests a model of shareholder behavior under the principles of double taxation. The author advocates that a tax should impose on mergers while taxing dividend income.[17] In addition to the case of political stability, the established tax system is one of the key factors that make a nation investment friendly or hostile (Ezeoha and Ogamba, 2010: 8). Indeed, most economics, finance and accounting scholars show that legal environment is the most important determinant of cross-country deals, like alliances, joint ventures, mergers, acquisitions and takeovers. Of course, some school of scholars explains that 'tax advantage'

[17] See the empirical evidence and discussions on dividends and taxes (Miller and Scholes, 1982).

is one of the major motives behind these deals.[18] By contrast, the aforesaid schools of researchers show that a country's financial markets legal infrastructure, banking guidelines, taxation issues and political events would adversely affect these deals, especially global direct investments and foreign acquisitions (e.g. Bris et al., 2008; Erel et al., 2012; Pablo, 2009; Reddy et al., 2013b; Rossi and Volpin, 2004; Schöllhammer and Nigh, 1984, 1986).

More specifically, accounting researchers find that foreign acquisitions and alliances do an act of 'tax evasion' (e.g. Kourdoumpalou and Karagiorgos, 2012). In this setting, we pose a fundamental research question in line with Collins et al. (1995), Kaplan (1989), and Scholes and Wolfson (1990), does taxation affect merger or acquisition transactions? The authors suggest "because of structured tax reform there is a great deal of rise in tax burden while taking over a firm where the other one has foreign tax credit in its local environment". More recently, Becker and Fuest (2010) study the optimal repatriation tax framework in an event where capital involves a change of ownership. They suggest that tax subsidies or exemption schemes are constructive if ownership advantage is a public good within the foreign MNE. As of Nigeria case, Ezeoha and Ogamba (2010) ascertain that multiple tax schemes reduce incentives to pay tax or for voluntary compliance; in an adverse manner, the current Nigerian system does not motivate taxpayers while inducing voluntary compliance.

However, when we look over different countries taxation structures there are two types of tax systems, such as, single taxation and double taxation, in which a given country normally levy on foreign transactions that include investments and mergers. Hence, if a country has free trade agreement (FTA) or any other special agreement with other country, the then single tax applies, or else double taxation. Though, it depends on the country's existing tax structure and guidelines. According to the theory, research by Huizinga and Voget (2009) describe that double taxation comes in the form of nonresident dividend withholding taxes, and parent country corporate income' taxation of repatriated dividends. They suggest that foreign country tax schemes greatly influence the outcome of border-crossing acquisitions. In other words, the parent-subsidiary investment establishing a firm supported by foreign acquisition is greatly affected by the double taxation. The authors also state that the likelihood of parent firm location in a country following a foreign takeover is abridged by high double taxation of border-crossing source income.[19] Similarly, Hebous et

[18] For instance, Trautwein (1990) classifies the theories of merger motives. They are [1] mergers benefit bidder shareholders (net gains through synergies – *Efficiency theory*; wealth transfers from customers – *Monopoly theory*; wealth transfers from target shareholders – *Raider theory*; net gains through private information – *Valuation theory*); [2] mergers benefits managers – *Empire-building theory*; [3] mergers as process of outcome – *Process theory*; and [4] mergers as macroeconomic phenomenon – *Disturbance theory*.

[19] In other words, economies that levy high international double-taxation rates are less likely appeal the parent firms of newly established MNEs (Huizinga and Voget, 2009: 1244).

al. (2011) examine the impact of differences in cross-border tax rates with respect to the location for a subsidiary of MNE. They show that location decisions of M&A investments have less influenced to differences in tax rates compared to location decisions of Greenfield investments.

On the other hand, tax evasions would adversely affect fiscal or government revenue that obstructs the timely implementation of economic policies and programs. More notably, Erel et al. (2012: 1059) find that larger differences in corporate income tax rates attract foreign investment. In Kourdoumpalou and Karagiorgos (2012), the authors investigate the affect of corporate tax evasion doings on the investor protection and the capital market functioning during 1992–2006. They find the mean rate of tax evasion is about 16%, which infers that the incentives for tax evasion do not reduce when the firms are publicly listed.

In sum, we have come to know various motives behind taxation, types of taxation in foreign acquisitions, and the impact of double taxation on international investments' from different studies that performed in different institutional settings. More importantly, we draw a fact that 'a country's tax policies, tax structure, and tax incentives and schemes' play a major role in border-crossing merger or acquisition deals. By contrast, we strongly contend that tax evasion would be more where there is a book law of double taxation or high international tax rates.

Lastly, when we summarize the aforementioned literature of two schools many insights and implications have epitomized to support our select cross-country telecom deal between Vodafone and Hutchison, and to counterpart various arguments in case analysis. In addition, the observations arrived at studies from diverse economic frameworks related to foreign acquisitions have assisted us while offering a large amount of valid policy implications for benefiting different stakeholders. Moreover, these reviews assist us while performing following actions like theory testing, and theory development and propositions.

3. Method: Case study research

It is worth mentioning that matching the methodology to the research question is central to any research effort (Punch, 1998 In Nicholson and Kiel, 2007). For instance, "qualitative research allows the researcher to discover new variables and relationships, to reveal and understand complex processes, and to illustrate the influence of the social context" (Shah and Corley, 2006: 1824). Indeed, when researchers perform the given job rigorously, and reported clearly and concisely, thus qualitative method is a powerful tool for management researchers that provides a great deal of merits beyond what traditional survey methods can

provide (Shah and Corley, 2006: 1830).[20] Given the purpose and the type of synopsis of our study in international business, we have chosen a well-established qualitative method "Case Study Research" (CSR). Conceptually, purpose of CSR is to build theories from an event that has associated with person, organization, animal, etc. (Yin, 1994, 2003). Yin defines that "a case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clear evident, and it relies on multiple sources of evidence" (Yin, 1994: 13).[21,22,23] Thus, CSR provides extensive yet important interpretations regardless of limitations: standardization and generalization of findings (Larsson and Lubatkin, 2001).

It is worth stating that IB discipline is one of the youngest and fastest growing academic forums in business administration research (e.g. Aharoni and Brock, 2010; Seno-Alday, 2010). As a group of researchers, it is our job to bring what an 'Academy of International Business's (AIB) perception towards qualitative research and its greater advantage in IB research. As far as qualitative research is concerned, theory testing is a great deal of contribution that improves the quality of a given field, which supports empirical studies especially in management research (see Doz, 2011; Miller and Tsang, 2011, Shah and Corley, 2006). In Birkinshaw et al. (2011: 573), the authors suggest that "thick description, exploratory research, and comparative case analysis that focus on inductive theory building and hypotheses generation may be more suitable for significant advances in IB research". In fact, the biggest contributions come from bold, novel theory-building efforts that push the research frontiers by fully utilizing the theoretically unique context of IB (Bello and Kostova, 2012: 543).[24] In light of CSR, Welch et al. (2011) design a typology of

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[20] Also, see techniques to ensure the trustworthiness of qualitative research (Shah and Corley, 2006: 1830).

[21] Historically, CSR method has developed and practiced as a regular research paradigm in medical sciences, and political and social sciences. In a dramatic transformation of knowledge and technology, and culture adaptation, CSR has borrowed and validated in business administration fields like marketing, strategy, operations and international business, among others. Thus, CSR aims to test theories that require the specification of theoretical propositions derived from an existing theory (as cited in Darke et al., 1998: 275). More specifically, Whetten (1989: 490) suggests that two criteria exist for judging the extent of theory, namely comprehensiveness and parsimony. Conversely, an important rationale of theory testing is to explore how far its anticipated means are consistent with observable events (Sayer, 1992 In Tsang, 2006). Finally, theory building requires the rich knowledge while theory testing is a cornerstone of the scientific method; however, theory development and refinement are of equal importance (as cited In Shah and Corley, 2006: 1822).

[22] Also, see Burgelman (2009), Doty and Glick (1994), Dubin (1978), Guba and Lincoln (1994), Ridder et al. (forthcoming), and Van Maanen (1979).

[23] Good theory is one that will be practically useful in the course of daily events, not only to social scientists, but also to laymen' (Locke, 2001 In Shah and Corley, 2006).

[24] Hence, the inherent complexity of IB phenomena could investigate through interdisciplinary research, valid applications, thus integrate and mix ideas and methods from two or more disciplines (Bello and Kostova, 2012: 541).

theorizing that suggests four forms, namely contextualized explanation, inductive theory-building, interpretive sense-making, and natural experiment.[25]

Prior to use CSR approach in our study, we ask ourselves – are there any studies in the past or in the recent that have used CSR as a pragmatic method in IB research and other forums. Certainly, we found a number of studies that have used CSR for different purposes, for instance, testing the existing theories/models (Nicholson and Kiel, 2007),[26] testing the existing propositions/hypotheses (Kshetri and Dholakia, 2009), building theories/models (Boehe, 2011; Lynes and Andrachuk, 2008; Tsamenyi et al., forthcoming), developing propositions or hypotheses, or both (Huang et al., 2008; Lubatkin, 1983)[27], and other ideas (Jonsson and Foss, 2011).[28] More specifically, Tsang (2006: 1000) distinguishes between two ways of theory testing, namely assumption-omitted and assumption-based, further recommends that when a new theory is initially tested, the latter should play a more important role than the former.[29] More recently, Tsang (forthcoming) proposes that when the emphasis on theory development is strong and the emphasis on contextualization is weak there would be stronger "theory building and testing".

Thus, our paper falls into three categories, namely testing the existing theories, developing theory, and offering propositions. To do so, we have chosen single case study, and compare and discuss the similarities of this case with other two cases that have associated with the given economic setting. In fact, Yin (1994) suggests that a CSR can be used on single case or multiple cases that varies from researcher to researcher, because it depends on the purpose of research whether theory is testing or theory is developing. Hence, single case is suitable when it satisfy all the guidelines for theory(ies) testing, or developing new ideas or theories (Dyer and Wilkins, 1991, Ghauri, 2004; Siggelkow, 2007; Yin, 2003).

Of course, there are abundant and diverse theories on mergers and acquisitions that have developed in economics, finance, organization, strategy, and international business. To fulfill our objective, we test 14 theories that have developed in different management research forums. In other words, eclectic paradigm and theory of FDI in international

[25] However, there are some arguments that explain cleverly by Tsang (forthcoming).

[26] In corporate governance forum, the authors have tested business theories like agency theory, stewardship theory and resource dependence theory. They find that no single theory explains the general pattern of results in a given setting.

[27] In particular, Lubatkin (1983) has suggested two novel propositions based on previous empirical studies. First, "mergers do not provide real benefits, because managers make mistakes […] second, mergers do provide real benefits, because administrative problems […].

[28] Jonsson and Foss (2011) use a longitudinal in-depth study that comprises 70 interviews of Swedish home furnishing giant IKEA involving more than 70 interviews.

[29] More specifically, assumption-based testing serves three important functions: identifying problematic areas of a theory, opening up new opportunities for strengthening a theory, and clarifying the conceptual domain of an assumption (Tsang, 2006: 1006).

economics, theory of firm internationalization and theory of liability of foreignness in international business, RBV theory in strategic management, institutional theory in organization studies, and agency theory in corporate finance. In addition, we test two theorems that have suggested in earlier research relating to multinational corporate ownership structures, learning-by-doing, headquarters and subsidiary-firm relations, and so forth of cross-national corporate behaviors.

Regarding data, we have chosen a method of archival data (see my paper, Reddy, 2015a). Thus, archival data can be used independently as well, particularly when attempting to understand historical incidents, or economic or social systems […] archival data often take a supporting role to interviews and observation in management research (Shah and Corley, 2006: 1829). The sources of our data are as follows.[30] The deal information and the court(s) rulings are collected from India's registered national finance dailies, namely *The Economic Times*, *The Hindu Business Line*, *Business Standard* and *The Financial Express*, and finance and legal consultants like *BMR Advisors*, *Deloitte,* and *KPMG*.[31] More importantly, we accumulate the essence of the given case, and business profile and financial information from the respective '*Company Annual Reports*'. We also support internationally reputed consultants' opinions refer to *Grant Thornton* and *McKinsey*.

In sum, a qualitative method 'CSR' is employed in our study to test existing theories, and to develop new theory "Farmers Fox Theory" whilst providing some important propositions for advances in existing IB knowledge.

4. India's CB-M&As market and regulatory framework

With the extensive literature backdrop and the inputs of a given CSR method in IB research, we therefore unfold this section into two parts. First, we show India's CB-M&As trend during 2000–2011. Second, we present the existing M&As regulatory framework.

By 2006, FDI (stock) including M&As from developing world had reached US$174 billion that is equal to 14% of the world's total in which emerging markets have 13% share (US$1.6 trillion) (see Economist, 2008). Over the world economy, the year 2007 is the tremendous spectrum for CB-M&A deals, thus evidenced in emerging economies (see

[30] While collecting secondary data, we have followed a few guidelines suggested by Reddy and Agrawal (2012).

[31] Further, registered business magazines, like *Businessworld*, *Business today*, *Outlook Business*, and legal editorials include *Taxmann's Corporate Laws* and *Indian Lawyer*; thus together have assisted us greatly while understanding the given case, and knowing the fundamentals of a given country's financial system and its legal framework. In addition, we absorb information for various reasons from a choice of faithful websites, namely *livemint.com*, *Indiainfoline database,* and *Reuters*.

UNCTAD, 2008).[32] In its survey, Grant Thornton International Business Report (2011) indicate that firms in emerging economies could evidence more profitability prospects, for example, Vietnam (90%) followed by India (79%) …, and Brazil (66%).[33]

4.1. India's CB-M&A market during 2000–2011

We provide some highlights of India's foreign acquisition transactions in terms of purchases and sales for the period 2000–2011 (see Figure 1). Apart from the basic outline of a given chart, we shall express few interesting observations. When look at India's CB-M&As numerical, one can understand that foreign acquisitions in terms of sales (number of deals and deal value) have been increased significantly compared to purchases (same as aforesaid) during the past 12 years. In fact, one can also observe that the year 2007 has shown a great amount of investment-flow, for example, purchases are appreciably higher than sales. From this finding, we infer that both Indian local companies and MNEs have internationalized their operations through foreign mergers or acquisitions since 2005. At the same time, DMNEs have been taken-over local firms majorly through FDIs and substantial acquisition of shares. In this regard, we argue that "this is possible because the Indian government had amended many regulations including FDI norms under FIPB authority during 2005–2006". The other important findings are as follows. For the 12-year period, total number of deals (deal value) for purchases and sales has reached 1,122 (US$47.97 billion), and 1,052 (US88.93 billion), respectively. Conversely, averages likely show for purchases (number of deals 87.67; deal value US$7,410 million), and sales (same as aforesaid, 93.5; US$4,000 million). Therefore, this noteworthy finding infers that most domestic firms have preferred merger or acquisition as one of their corporate strategies both for internationalizing their trade and for gaining ownership advantages (e.g. Ramamurti, 2012a). In this exemplar, one can test the Dunning's eclectic paradigm (Dunning, 1977, 2000), or the Uppsala theory of firm internationalization (Johanson and Vahlne, 1977) that would add significant contribution from emerging economies setting to the existing IB literature. Similarly, outbound acquisitions average growth rate is significantly higher than inbound acquisitions. For instance, we have seen ample of rise in purchases (number of deals 38%; deal value 1030%) compared to sales (same as aforesaid, 16%; 80%). More importantly, we observe similar findings when Indian share is measured as a percentage of world economy. In other words, purchases in terms of number of deals as a percentage of world economy are notably higher than sales for the period 2005–2008 and 2010. Indeed, we do not find significant

[32] See the fruitful discussions on CB-M&As around the year 2007 (Capaldo et al., 2008). Also, refer to a recent investigation by Kohli and Mann (2012) for determinants of value creation in India's domestic (66 deals) and cross border acquisitions (202 deals) during 1997–2008.
[33] Also, see Grant Thornton International Business Report (2012).

difference between purchases and sales. However, purchases in terms of deal value as a percentage of world economy are higher than sales (1.40 > 0.87).

[Insert Figure 1 here]

It is worth mentioning that emerging-economy firms have acquired many local firms in developed economies during the global financial crises (see the period 2007–2010). Nevertheless, it is because of lower valuations, less number of counter bidders, down in corporate earnings of different industries and tough-time for local firms to obtain debt capital in developed markets like U.S., UK and other European countries, the then, these countries have most affected by the recent financial crises. Additionally, Grant Thornton and ASSOCHAM Report (2012: 13-14) shows that total Indian M&As value (number of deals) has reached US$62 billion (971 deals) in 2010, US$54 billion (1,026 deals) in 2011, and the first four months of 2012 shows US$23 billion (396 deals). Thus, altogether infer that the desire of local entrepreneurs is to bring in advanced technology and equity to boost various business opportunities (also, see Reddy, 2015b).

4.2. The M&As regulatory framework

With this in mind, we present India's M&A regulatory framework (see Appendix A). It comprises five government authorities, namely the Registrar of Companies (Companies Act, 1956), the Securities and Exchange Board of India (SEBI – SAS&T Regulations, 1997), the Competition Commission of India (CCI – Competition Act, 2002), the Reserve Bank of India (RBI), and the Department of Revenue (Income Tax Act, 1961).[34] In particular, RBI plays a key role in banking and finance related mergers, alliances or combinations. Apart from the above controllers, the Foreign Investment Promotion Board (FIPB) performs an important role in FDI approvals and foreign trade transactions. Prior to the FIPB (1950–80, per se), the policy setting was featured by the widespread bureaucratic control over choices and decisions; in fact, licensing was one of the instruments used to corroborate private investment at both inbound and outbound (see Agarwal and Bhattacharjea, 2006).[35] There are some other acts, which perform directly and indirectly related to both domestic and foreign deals. For instance, the acts like Foreign Exchange Management Act, 1999; Indian Stamp Act, 1899; Registration Act, 1908; Transfer of Property Act, 1882; Wealth Tax Act, 1957; and Customs Act, 1962.[36] Most of these regulations are exercised by the Department of Revenue [under the Ministry of Finance].[37]

[34] See the legal aspects of M&As for Indian business environment (Ray, 2010: 647–703).
[35] Also, see Ramakrishnan (2010) and Venkiteswaran (1993).
[36] For example, the Indian Stamp Act 1899 is a regulation laying down the law relating to tax levied in the form of stamps on instruments recording transactions. On the other hand, the parliament has enacted the

5. Case information

With this in mind, we present our case details. For transparency and authenticity, this section has formally partitioned into two sub-sections. First, it discusses the international telecom market environment. Second, we present the profile of Vodafone and Hutchison Whampoa.

5.1. International telecommunications market environment

In Li and Whalley (2002), the authors mention that the waves of liberalization and privatization have raised primarily in developed markets, for instance, it began in the U.S. (1980s, per se), followed by the European region (e.g., UK, Germany) and Japan for disparate economic and political reasons.[38] However, in the early 1990s more players that are hostile entered the market that made a significant impact on the telecommunications industry (Li and Whalley, 2002: p. 454).[39] In fact, this policy regime and deregulation paradigm has significantly changed the face of many industries in world economy, for example, logistics and transportation, telecommunications, banking and financial services, and so forth. By the year 2000, most economies have deregulated their telecomm market. As a result, competition has escalated, new technologies and services have developed, prices have decreased, and consequently mobile telecommunications have reached a larger part of the universe (Whalley and Curwen, 2012a).

In Böhme et al. (2008), the authors mention that there is a great improvement in Asian economies because of strong fundamentals of both the stock and banking markets. They also argue that these nations have become target for foreign players in due course of integration, connection or experience with world financial system. In other words, telecom sector is the one that has been deregulated since 1994 for many reasons like FDIs, licensing, spectrum allocation, etc (Jain et al., 2005). More importantly, DMNEs in telecom sector have been internationalizing their core-activities through various corporate strategies in developing, emerging and bottom-of-the-pyramid (BOP) countries. In fact, telecom DMNEs and EMNEs internationalization strategies are significantly different within the industry compared to other product or service based industries (see Curwen and Whalley, 2006;

Foreign Exchange Management Act, 1999 to replace the Foreign Exchange Regulation Act, 1973. The object of the Act is to manage and amend the law relating to foreign exchange with objective of facilitating external trade.

[37] See the India's legal framework related to business and business enterprises (Gulshan, 2009; Tulsian, 2000).

[38] In Schöllhammer and Nigh (1984), the authors mention, "since the mid 1960's the highest relative raise in their degree of internationalization has been accomplished by firms based in the Germany and Japan, while during the 1950's and early 1960's U.S. based firms held the top position.

[39] Also, see Curwen and Whalley (2005).

Whalley and Curwen, 2005).[40] Certainly, India is one of those countries that have initiated parallel to the European markets (Curwen and Whalley, 2005). The telecommunications sector is one of the important drivers of the India's infrastructure development program; as a result, many DMNEs have invited to establish their units in India. For instance, number of wireless connections has exponentially increased from 6.54 million in 2002 to 893.84 million in 2011 at a massive growth rate 13,567% (see Appendix B). Indeed, Hutchison Whampoa and Vodafone are biggest players in this industry. Both the MNEs are 'Flagship firms', which co-ordinate the investment and operational activities of other companies within their business network (Whalley, 2004). With this in mind, we therefore present the profile of both the global telecom giants.

5.2. Company information

5.2.1. Profile of Vodafone Group Plc

The UK-based Vodafone Group is a multinational telecom enterprise operating across the world economy offering a range of communications products and services. The products or services include voice, messaging, data and fixed-line solutions, and instruments to assist customers in meeting their total communications needs (see VGP-AR, 2012). According to the Financial Times Global 500 ranking for the year 2012, it has ranked 36th declined from 30th in 2011. Further, it is next to China's China Mobile in the worldwide telecommunications industry.[41] The company has established as a Racal Telecom in 1982 and become an independent listed firm in 1991. In other words, it had separated from Racal Electronics in 1991 and merged with AirTouch Communications, the then became a new entity 'Vodafone AirTouch' in 1999. Following the year 2000, Vodafone started as a group enterprise headquartered in Newbury, England (see Infocom-de.com). It operates in three geographic markets, namely Europe, Africa and Central Europe, Asia Pacific and the Middle East, thus has a significant equity interest in the U.S. based Verizon Wireless (see in.reuters.com). By and large, the company's global presence in terms of number of markets (number of mobile customers) has increased dramatically at three-fold (35-fold) from 12 (5.8 million) in 1998 to 38 (206.4 million) in 2007, and thereafter, augmented to 40 (370.9 million) in 2011 (see VGP-AR, 2006, 2007, 2011). It is listed primarily on the London Stock Exchange (LSE) in 1988 and the second listing on NASDAQ. As of May 16, 2011, it had a market capitalization approximately £86.4 billion making is the second largest listing in the

[40] In addition, see Curwen and Whalley (2008), and Pogrebnyakov and Maitland (2011) for strategic challenges in the world economy while internationalizing the telecom firms. Also, see the international diversification and service firm performance (Capar and Kotabe, 2003).

[41] Source: Financial Times (2012).

Financial Times Stock Exchange (FTSE) 100 index, and the 28th largest MNE in the world measured by market capitalization (VGP-AR, 2011: 134). In 2000, it has acquired Germany's Mannesmann for US$231 billion, which is the biggest deal in Vodafone's corporate history (Tele.net.in, 2007). Since the early 1990s, Vodafone has expanded internationally to become the world's largest mobile telecommunications company; for instance, it has launched 3G services in Europe in 2004. Because of internationalization, it has acquired a great deal of potential in 11 out of the 15 European Union (EU) member countries (see Whalley, 2004).[42] In 2006, it has sold its Japanese unit to Softbank and Swedish unit to Telenor. (In the outstanding part of this section, we describe the current case Vodafone – Hutchison telecom deal.) In November, 2011, it has sold 24.4% equity interest in Poland's Polkomtel; more recently, its Netherlands-based firm, Vodafone Libertel BV has acquired Telespectrum-DJ in April 2012 (see in.reuters.com).[43] In the limelight of company financials, the group has shown impressive results during 2008-2012. For instance, total revenue (profit) has improved (recovered) appreciably from £26.68 billion (£6.52 billion) in 2005 to £29.35 billion (−£21.82 billion) in 2006, £31.1 billion (−£5.3 billion) in 2007, £45.9 billion (£7.87 billion) in 2011, and £46.47 billion (£7 billion) in 2012 (see VGP-AR, 2006, 2007, 2011, 2012).

Regarding Indian operations, Vodafone has acquired an additional 22% equity stake in Vodafone India Limited[44] (VIL) from its joint venture partner 'Essar Group' for £2.6 billion on July 1, 2011 (VGP-AR, 2012: 56). Further, Essar Group has sold their remaining 11% equity interest in VIL to Piramal Healthcare for £767 million during the financial year 2011-2012. As of March 31, 2012, Vodafone had a 64.4% interest in VIL through its wholly owned subsidiaries, and a further 20.1% indirect holding giving an aggregate 84.5% equity interest or capital control (VGP-AR, 2012: 118).

5.2.2. Profile of Hutchison Whampoa Limited

The Hong Kong based and the Hong Kong Stock Exchange listed MNE' Hutchison Whampoa Limited (HWL) is a conglomerate and an investment holding group. According to the Financial Times Global 500 ranking, it has ranked 150th for the year 2011, and then down to 167 in 2012; further, it ranks fifth in sector ranking of 'General Industrials'.[45] The multinational business entrepreneur Li Ka-shing' owned Cheung Kong Holdings has equity

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[42] See for Vodafone in the worldwide operators' presence in number of countries (Curwen and Whalley, forthcoming).

[43] See the internationalization sequence of Vodafone in BOP-markets (Schuster and Holtbrügge, 2012: 823–825). Also, see Appendix B in our paper for Vodafone share in Indian telecommunications market.

[44] On October 11, 2011, the firm name (VIL) has changed from a joint venture called Vodafone-Essar Limited (VEL).

[45] Source: Financial Times (2012).

interest of 49.9% in HWL; in fact, he solely chairs both the firms (Whalley and Curwen, 2012b). HWL business operations include property and hotels, ports and related services, energy, infrastructure, retail, finance and investments, and telecommunications, as well. It is also a container terminal operator (see in.reuters.com). As of December 31, 2011, it held interests in 52 ports internationally, which include 269 berths in 26 countries together with container terminals (see HWL-AR, 2011). In truth, a role model for Asian emerging enterprises has continuously been diversifying its services into new markets (e.g. Whalley and Curwen, 2012b). It develops and invests in real estate projects, ranging from office buildings to residential properties. Further, HWL's diverse retail portfolio comprises health and beauty products, luxury perfumeries and cosmetics, supermarkets, consumer electronics and electrical appliances, and airport retailing. In addition, it invests in energy and infrastructure projects that are located in Hong Kong, the U.K., the Mainland, Australia, New Zealand, Canada, Greenland and Indonesia (see in.reuters.com).[46] In the limelight of company financials, the HWL results are worth mentioning during 2002-2011. For example, total revenue (profit, total assets) has boosted substantially from HK$75.24 billion (HK$11.77 billion, HK$498.44 billion) in 2002 to HK$218.68 billion (HK$33.35 billion, HK$790.34 billion) in 2007, and HK$233.7 billion (HK$56 billion, HK$720.54 billion(↓)) in 2011 (see HWL-AR, 2011).[47]

The HWL operates and holds different amounts of equity interest in different countries, which is a complex structure while it is being a standard practice of any MNE (see Figure 2). Its subsidiary-firm Hutchison Telecommunications International Limited (HTIL) was floated in 2004 to carry out a set of fixed-wire and mobile assets in eight countries, namely Hong Kong, India, Israel, Macau, Sri Lanka, Ghana, Paraguay and Thailand (as cited In Whalley and Curwen, 2012b: 20). Nevertheless, it appears that HTIL reported profits of almost HK$67 billion in 2007 although this is primarily due to the sale of the company's operations in India to Vodafone for HK$69.3 billion (HWL-AR, 2008 In Whalley and Curwen, 2012b: 29). The authors Whalley and Curwen argue that HTIL could have represented loss in 2007 when no sale of its 100% equity interest in Cayman Islands based CGP Investments (Holdings) Limited to Vodafone. It is worth noting that HTIL has invested roughly US$2.6 billion in India since 1995 (Tele.net.in, 2007). In this regard, one can estimate that Li Ka-shing has outstandingly gained about US$8.3 billion for the period of stay 1995–2006 [per se].

[46] See the historical performance of Hutchison Whampoa in the European telecom market (Whalley and Curwen, 2006: 629-631).
[47] Also, see HWL-AR (2009, 2010).

[Insert Figure 2 here]

In reality, the Indian-listed entity Hutch-Essar Limited (HEL) is a joint venture between CGP Investments (Holdings) Limited, which is indirectly owned by the HTIL and the Indian conglomerate firm Essar Group. In 1995, the Hutchison was launched its mobile operations, and able to become the market leader in the Mumbai 'circle' by the end of 1996 with more than 50,000 subscribers (as cited In Whalley and Curwen, 2012b).[48] Subsequently, the acquisitions of other mobile operators gained the territory market advantage of Hutchison Max. In January 2006, it had acquired BPL Mobile Cellular which, when combined with the pending purchases of BPL Mobile Communications and Essar Spacetel, would expand the company's footprint in India to 23 circles (Whalley and Curwen, 2012b: 23–24).

5.3. Time-line of the Vodafone–Hutchison deal

As of previously mentioned, Vodafone-Hutchison cross-country telecom deal is one of the world's longtime-delayed border-crossing mergers and acquisitions (see Figure 3 and Box 1). As far as the case is concerned, Vodafone Group Plc is Britain's diversified telecom MNE, which has an offshore subsidiary unit Vodafone International Holdings B.V (VIH) located in the Netherlands. On the other hand, HWL is Hong Kong's largest conglomerated MNE, which has an on-shore Asian subsidiary firm HTIL headquartered in Hong Kong; thus HTIL has 100% equity holdings in CGP Investments (Holdings) Limited located in Cayman Islands. Indeed, both MNEs have significant equity interest in their respective subsidiaries. The key point of the case is that "CGP owns a 51.95% indirect shareholding in HEL, an Indian-listed entity (VGP-AR, 2007).[49] The crux of the case is that "Vodafone had agreed (completed) on February 11 (May 8), 2007 to buy a HTIL's 100% holdings in CGP Investments through its subsidiary firm VIH for US$10.9 billion (see VGP-AR, 2007, 2008).[50] Certainly, there was some debt amount approximately US$2 billion that has included in the deal amount (Tele.net.in, 2007).[51] Consequently, the acquisition has resulted in Vodafone's control over CGP and its subsidiaries including HEL (see BMR, 2012). More

[48] During 1998, Hutchison increased its stake in the Indian mobile business – Hutchison Max Telecommunications – to 49.5%, and subscribed to the preference shares of another company holding a large stake in Hutchison Max (as cited In Whalley and Curwen, 2012b: 23).

[49] As part of its acquisition of CGP, Vodafone acquired a less than 50% equity interest in Telecom Investments India Private Limited ("TII") and in Omega Telecom Holdings Private Limited ("Omega"), which in turn has a 19.54% and 5.11% indirect shareholding in Hutchison Essar. Concurrently with the acquisition of CGP, the Vodafone granted put options exercisable between 8 May 2010 and 8 May 2011 to members of the Essar group of companies that will allow the Essar group to sell its 33% shareholding in HEL to the Group for US$5 billion or to sell between US$1 billion and US$5 billion worth of HEL shares to the Group at an independently appraised fair market value (VGP-AR, 2007: 136–137).

[50] Also, see HWL-AR (2007).

[51] Also, see India Knowledge@Wharton (2007).

surprisingly, the Indian tax authorities had argued that the underlying or principal asset transferred pursuant to the deal was a 'controlling stake' in HEL, which was indirectly held by the HTIL. In other words, the revenue department had issued a notice to Vodafone, inducing it as an assesse-in-default for failure to withhold taxes on gains arising out of HTILs transfer of shares of CGP Investments (BMR, 2012). Subsequently, the issue was litigated for longtime before the BHC and the SC (Deloitte, 2011). In detail, on December 3, 2008, the court [BHC] had permitted tax regulators to do investigation refer to whether the transaction is accountable for capital gains tax (see Singhania and Dastaru, 2012). In May 2010, the regulators sent an order of holding against Vodafone or VIH in failure of payments to withhold taxes. Consequently, Vodafone filed a summons appeal before the BHC; however, on September 8, 2010, BHC had dismissed the appeal by mentioning that the dissimilar ownership rights acquired by the Vodafone's VIH had adequate link with the territory of India (Deloitte, 2011). Thereafter, Vodafone had filed a petition in the apex court of the country 'SC'; on November 15, 2010, the court had asked VIH to deposit Rs 2.5 billion in three weeks, thus the amount is simply to uphold the interest of the revenue department till the court makes the final verdict (see Business Standard, 2010; Indian Express, 2010). Finally, on January 20, 2012, SC has given a landmark judgment in favor of Vodafone, stating that the deal had no connection with territory of the country, and therefore tax authorities have no right to impose any capital gains tax (see Economic Times, 2012).[52]

[Insert Figure 3 here] and **[Insert Box 1 here]**

6. Systemic analysis of the case – point and counterpoint

It is worth stating that case analysis is an important course of case-study investigation across the inter-disciplinary electives. We therefore show our systemic and careful analysis of the given case (see Figure 4). In addition, we provide relevant previous literature that fits in (to) the given context. In Keyal and Advani (2010: 513), the authors mention that

> "it is a universally recognized presumption that laws made by any country are intended to be applicable to its own territory and are aimed at governing their domestic conditions".

More importantly, a country's jurisdiction should act with regard to the existing laws, for instance, "book of law", and then it has to follow in which the state of law situated or located. In other words, it must pursue various guidelines related to "territory of a country", especially in the international business and trading activities. With this intuitive note, we then proceed to demonstrate our points and counterpoints in the given case analysis.

[52] To conserve space, we do not present the court proceedings, however they are available upon request.

We thus start our discussion from the basic Indian Contract Act, 1872 to the recent Competition Act, 2002. First, is there any contract exhibited between Vodafone's VIH and Hutchison Whampoa's HTIL? Our straightforward answer is 'yes', because the contract titled 'share purchase agreement' had occurred within the nature of, for instance, Section 2(a), (b), (d), (e), (h) and Section 10 of the Indian Contract Act, 1872. Second, where was the contract registered or occurred? According to Hutchison Whampoa and Vodafone Annual Reports (see HWL-AR, 2007, 2008; VGP-AR, 2007, 2008), the contract has registered outside the territory of India, namely Cayman Islands. To argue this observation, we then look seriously and deeply study the relevant acts like Transfer of Property Act, 1882; Indian Stamp Act, 1899; Registration Act, 1908; Sections 390-394 of Companies Act, 1956; Wealth Tax Act, 1957; Customs Act, 1962; Foreign Exchange Management Act, 1999; Monopolies and Restrictive Trade Practices Act, 1969 (now, Competition Act, 2002); and other valid amendments occurred in 2006; nevertheless, we could not find any pertinent section or sub-section that explains the geographical or territory of India that the deal had some kind of nexus with a given country. In addition, we look into the SEBI (SAS&T) Regulations, 1997, although no section or paragraph has established in this act, which is relevant to examine this case. However, we presume that a tax treaty or foreign trade agreement with a specific country must be having such territorial provisions. Indeed, India-Mauritius tax [haven] treaty has not amended through Finance (Amendments) Act, 2006, or the government has amended, but they have ignored this important proposal. For instance, when the government has ignored for some unproductive benefits, then it has to explain why the specific act or regulation could not amend in this time or duration; however, we do not find such reasons in the given amendments since it is a constitutional validity.

With this in mind, we ask our third question. Is the method of 'transfer of shares' between Vodafone and HTIL a direct or an indirect? Prior to answer this question, we must acknowledge Vodafone-Hutchison (CGP Investments (Holdings) Limited) deal information (see, for instance, Figure 3). In this hypothetical picture, we show that the 'share transfer' has occurred between VIH and HTIL. In fact, both subsidiaries have no direct assessment or connection with India. As a result, the deal becomes India's offshore transaction in the view of 'indirect transfer of shares'. In line with discussion, we further look whether Indian Income Tax Act, 1961 has any section or provision to levy capital gain tax on such indirect transfers when the deal becomes offshore transaction. Here, our straightforward answer is 'no', but such taxes have been exempted in the existing Income Tax Act, 1961. In other words, section 47(vi) explains, "where there is a transfer of any capital asset in the scheme of amalgamation by an amalgamating company to the amalgamated company, such transfer

will not regarded as a transfer for the purpose of capital gains tax provided the company amalgamated company to whom such assets have been transferred, is an Indian company" (see Ray, 2010).[53] More importantly, the act does not have provisions related to withholding tax, indirect transfer of securities include shares, debt instruments, etc.

[Insert Figure 4 here]

In fact, "Vodafone's counsel had argued that as per section 9(1)(i) of the Act, income deemed to accrue or arise in India from the transfer of a capital asset "situated in India" should be taxed in India" (Deloitte, 2011). Thus, it is worth noting, "the assumption that the geographical location of investment matters for its productivity whereas corporate ownership structures do not" (Becker and Fuest, 2010). Furthermore, "the nexus of a non-resident with the taxing jurisdiction arises where the source of income originates in the jurisdiction" (Jain, 2012). While the case was ruling in BHC, we find a relevant study by Keyal and Advani (2010: 522–524), the authors suggest that the 'implicit test of nationality or test of protectiveness' should have been considered and evaluated. Hence, the deal has not been attracted the two tests. They also presume, "in some advanced countries, withholding tax in case of non-residents applies only when payments are made by residents to non-residents". As a result, SC has finally make his judgment in favor Vodafone that tax authorities have no jurisdiction to impose capital gains taxes on offshore deals or indirect transfer of shares.[54] In particular, the court further observes that controlling interest is a contractual right and could not consider as property (BMR, 2011). Further, it has terrifically pointed out that any judgment should be given with regard to existing law or book of law. Lastly, we strongly support the views and judgment given by the apex court of India. However, this would be a good lesson for tax authorities, M&A regulators, local entrepreneurs, foreign investors, and society, as well. Four decades ago, Hymer (1970: 447) argues that "MNEs, because of their size and international connections, have certain flexibility for escaping regulations imposed in one country". We thus support the views of Hymer in this particular aspect.

7. Theory testing, and theory development and lawful propositions

[53] The act is clearly mentioned that tax concession to the amalgamating company and amalgamated company. The act also covered provisions for demerger of a company and slump sale (see Chapter 2(1B) of the Income Tax Act). Moreover, the act has not been defined what is merger, acquisition or takeover but it has presumed 'amalgamations' as mergers and acquisitions.

[54] More importantly, the court held that both Vodafone and Hutchison Whampoa's HTIL were not "fly by night" operators or short-term investors; hence, they had contributed substantially Rs. 20,242 crore (US$3.76 billion) in the form of both direct and indirect taxes to the exchequer for the period 2003–2011 (Hindu, 2012).

The outstanding part of this paper aims to test 14 theories that have propounded in different business research forums, for instance, Caves and Hymer's theory of FDI, Uppsala theory of firm internationalization Dunning's eclectic theory, Penrose's RBV theory, and Jensen and Meckling's agency theory, just to name a few.[55] In addition, we look up two important theorems that have tested in previous studies like multinational corporate ownership and subsidiary-specific advantages, and learning-by-doing. Thereafter, we propose our new theory 'Farmers Fox Theory', and offer lawful propositions.

Most strategy, IB and finance researchers explore that a firm reports a significant growth while choosing a corporate inorganic model compared to an organic model. For instance, growth can be seen in terms of market share, profitability, economies of scale, competitive advantage (see Porter, 1985), new market experience, and so forth of synergies. Indeed, the model that we indentified in our select case is an 'acquisition' and it is a cross-border acquisition. On the other hand, extensive research on internationalization evidence that most U.S. and UK based, and other developed-country multinationals have internationalized their operations, corporate ownership, and products and services through mergers and acquisitions. Similarly, recent research on emerging economies shows that emerging-market firms are being adopting and following both past and current strategic alternatives of DMNEs. With this intuitive note, we therefore test the aforementioned theories in the current Vodafone-Hutchison deal (see Table 1).

[Insert Table 1 here]

Regarding theory development and lawful propositions, we establish a triangular association between systemic case analysis, relevant CB-M&A literature, and theory testing. We thus develop a theory in light of a given country's weak legal framework and its foreign acquisitions for a great deal of advances in the current knowledge refer to M&As, alliances, network coordination and buyouts. We therefore define our theory as "Farmers Fox Theory". It reveals that

"a given country's weak (loopholes in) financial and tax regulatory system benefits both the acquirer and the target firm in cross-border mergers and acquisitions based on two assumptions: first, one must have some experience with the given economic and regulatory environment or some kind of alliance with a local firm; second, other one should new to the economy where the target firm registered or associated with. At the same time, this economic behavior adversely affects its fiscal income or revenue".

[55] We thank the Editor-in-Chief, Professor Masaaki Kotabe for his fruitful suggestion that has prompted this supplementary section 'theory testing'.

In addition, we acknowledge some important limitations that have to be checked by the future scholars before testing this theory. While fulfilling these guidelines, one should receive impartial results in a given economic setting based on the assumptions of theory. First, a given study must be within the foreign mergers or acquisitions. Second, the given sample should have been delayed or broken, or both. Third, there should be a government or state involvement (or action) in that delayed or broken deal. Fourth, there should not be a conflict of interest between acquirer and target firm. Fifth, both the firms can be different each other in business nature. Sixth, either the firms can have prior alliance experience or not, which could not influence our theory. Seventh, this theory also supports, and in line with 'liability of foreignness' (Zaheer, 1995). Eighth, our theory is not feasible to apply for domestic transactions; however, we endorse 'liability of localness' – when a given economy enterprises internationalize their operations or seeking to invest in other foreign nations (see, for instance, Perez-Batres and Eden, 2008). Finally, the deal can be any form - that is either pre-merger negotiations or during the merger process but should not be post-merger integration.

To test our theory in future research, we suggest lawful propositions for implications of IB forum. Indeed, we provide case evidences to legalize our propositions. Thus, these propositions would advance the current knowledge of foreign acquisitions or alliances. The propositions are as follows.

Proposition 1. A given country's weak financial markets and tax regulatory system benefits both the acquirer and the target firm in cross-border investments or acquisitions.

Case testimony: Prior to provide case proofs, we define what a weak regulatory system is. In a given period, where a country's regulatory system does not advance in line with similar group of countries, or should not adopt or amend specific rules and guidelines for a public good, and when the system has corrupted by the given political instability and bureaucrats inefficiency, thus together leads to delay or break both public and business-purpose legal procedures – is called "weak regulatory system". More importantly, this weak system adversely affects government's fiscal income whist benefiting other stakeholders.

In our case, Vodafone has benefitted in the form of capital gains tax that the India's apex court has given its landmark judgment by stating that the existing tax guidelines do not allow tax authorities to impose capital gains tax on Vodafone in the current Vodafone-Hutchison deal. As a result, Vodafone has benefited approximately 20 per cent on a given deal amount (US$10.9 billion), which is equal to US$2.18 billion. On the other hand, Hutchison Whampoa benefited in the form of premium value that has paid by the Vodafone.

In reality, HWL has invested approximately US$2.6 billion in India since 1995 and sold to Vodafone for US$10.9 billion, which benefited US$8.3 billion, per se. In the paradigm of international laws, it is said that only an acquirer is liable to pay tax and not the target firm. In sum, both the acquirer and the target firm are benefited because of loopholes in the given country's institutional setting.

Proposition 2. Acquirer or merged firm gains new knowledge, acquisition experience and other learning proposals while acquiring a target firm located in (or associated with) weak legal and regulatory framework.

Case testimony: As a result of long-time delay in judging the given case, Vodafone had acquired a great deal of knowledge on a given country's constitutional system, weakness of the regulatory setting, approaching public administration authorities and bureaucrats, linkage between politicians, bureaucrats, industry associations, jurisdictions, media and public, and knowing the given market potential for its survival. Thus, this acquisition is a kind of learning experience to DMNEs while entering negotiations or doing business in countries like India. If Vodafone could advance their deeper eyesight, therefore it would be head of other multinational giants in the world economy telecommunications-market.

Proposition 3-1. Foreign acquisition transactions get delay - when a given country adopts developed-economies legal guidelines without cause-benefit analysis, does not understand and define the actual purpose of the acts, does not perform regular amendments, or does amend or not amend without any explanation, and lazy public administration, thus together form a weak constitutional system, which damages public or social good.

Proposition 3-2. In cross-country deals, acquiring firms acquisition cost increases coherently, for instance, communication cost, legal proceedings cost and other associated costs because of a given country's regulatory authorities exerts, behaviour and dealings.

Proposition 3-3. The increased acquisition cost (total acquisition cost − actual transaction value) would adversely affect acquiring firm's stock returns and accounting earnings.

Case testimony: To the best of our knowledge, it is one of the worst long-time delayed cross-country deals in the world economy, especially in telecommunications sector. Thus, the deal had initiated in December 2006, announced in the media in February 2007, completed in May 2007, tax authorities filed a petition in the given country's state jurisdiction [...] and finally, Supreme court of India given its judgment in January 2012 (see Box 1 for time line of the deal). In sum, number of months that the transaction has

consumed in the account of Vodafone approximately 62. Hence, we support some case proofs with the theory 'liability of foreignness' (Zaheer, 1995).

Conversely, we substantiate our proposition (3-1 to 3-3) from the recent foreign acquisition deals that associated with the given country. First, Bharti Airtel wanted to acquire or merge with South African-based MTN Group. Thus, this deal had delayed and then cancelled during three-round negotiations (2008-2009) because of regulatory hurdles, which have authorized by the SEBI and the Ministry of Finance. For instance, the hurdles refer to dual listing norms and complex deal structure (see Reddy, et al., 2012). In fact, the reality of the case lies here "the given country's regulatory system does not define what dual listing is". In this regard, one should raise different blended questions, for instance, when a given country owns an Asia's oldest stock exchange (Bombay Stock Exchange established in 1875), becomes an independent country in 1947, implemented new economic policy in 1991, and most financial regulations have amended in 1994 and 2006; though, why this country's legal framework does not have guidelines for dual listing or any other specific acts. Second, this is an interesting deal between UK-based Vedanta Resources and UK-origin Cairn Energy. It looks similar to our current case. Thus, it has delayed in light of production sharing contracts and open offer issues, and then finally completed (see Nangia et al., 2011).

Because of delay in providing judgment, Vodafone had expensed lots of costs like communication cost, legal proceedings cost and other associated costs. Therefore, we strongly believe that these costs would adversely affect Vodafone's stock returns and accounting returns during 2007-2011. To proven the later one, one should test 'efficient market hypothesis' propounded by Fama et al. (1969). On the other hand, one can use an event-study method to observe significant difference between pre-deal and post-deal period of a given stock. Hence, it is not advised to test the later theory without having substantial sample.

Proposition 4-1. Autocratic holding company structures initiate multi-layered ownership forms like subsidiary-firms, networks, and alliances.

Proposition 4-2. Global multi-layered ownership structures benefit a given holding company in terms of acquiring strategic advantages, for instance, internationalization, knowledge creation, corporate control, network coordination, and tax advantage.

Case testimony: The propositions 4-1 and 4-2 are being developed based on relevant literature, case information, systemic case analysis and theory testing (see, for instance, 'internalization theory and subsidiary-specific advantages'). Also, see Hutchison Whampoa's multinational ownership structure (Figure 2).

8. Policy implications and Conclusions

While summarizing the aforementioned extensive literature, fruitful discussions on Vodafone–Hutchison telecom offshore deal and theory testing/development, we have obtained substantial backdrop to suggest some recommendations for policy regime that would improve the existing corporate governance standards of a given economy. We then formally uncover this section into two societies. First, a great deal of lawful proposals is advised for M&A regulatory framework. Second, some key guidelines are recommended for MNEs and managers. Finally, we summarize the act of our intent behind this study, and conclude the retrospective investigation of the given case.

Many advanced economies' researchers, policy makers and consultants suggest that a country's economic growth not only depends on its financial system and financial development, but also induces by its constitutional and legal infrastructure. Indeed, both notions play an important role in an economic functioning that transforms the economy from a controlled-setting to an open-economy environment. As of developed markets policy-reforms initiated in 80's and emerging economies deregulation began in 90's, there is a large amount of international trade between country-to-country and continental-to-continental. With subsequent reforms, emerging economies government-undertaking industrial enterprises and local entrepreneurs have gained a significant amount of knowledge in both economics and business administration. For instance, one can observe technology transfer, capital formation, exchange of ideas, transfer of wealth, experience of cross-culture, and so forth of multidisciplinary proofs. As a result, [today] EMNEs and local companies are choosing mergers or acquisitions as one of their long-term corporate strategies. More importantly, they are competing with DMNEs and acquiring local companies in developed economies setting beside their counter players (see Ramamurti, 2012a). To be sure, this is a part of internationalization but it is a kind of "reverse-investment-flow" (see Govindarajan and Ramamurti, 2011; Peng, 2012).

However, when we 'lookup' deeply through our 'lenses' there is a huge amount of disturbances, consequences, litigations, improper policy guidelines, arrogance of regulatory system, inefficient bureaucratic administration, unethical political power, a land for corruption, allegations, controversies, religion wars, and so forth of economic calamities within the system are folded, mixed, unbroken and detachable.[56] By and large, Indians are induced by their own setup, culture, structure, attitude, and so on. Consequently, most

[56] For instance, an act of disagreement or quarrel in both the intra-state jurisdiction and inter-state jurisdictions for different reasons ranging from a legitimate need [drinking water] to a robust constitutional issue [state partition].

DMNEs have greatly been affected (injected) and left their businesses; hence, someone keep on doing business because of one principle– "one should not damage his (her) character or system because of others influence or inefficiency".[57] Therefore, we strongly believe that one can find the abovementioned observations straightway in countries like India. The radical change and regulatory regime in the era of globalization and liberalization waves, one shall pose an open question: where (what) is an investor protection? Does investor protection guidelines different for foreign MNEs compared to local companies? Is there any corporate governance code in a given country's financial system?

8.1. Implications for M&A regulators and Legal framework

In the limelight of the *Worldwide Governance Indicators*, World Bank defined the term 'governance' as follows.

> "Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them".

In Licht et al. (2005), the authors mention that legal reform is the primary vehicle in the hands of policy makers for peacefully inducing social change. Likewise, sustainable development of a given economic nation very much depends on a functioning judiciary, thus government could promise to enforce private property rights that would benefit potential investors (Ramello and Voigt, 2012). It is worth stating that taxes and penalties are the important sources of revenue for a given economy that would help in implementing various fiscal policies for economic growth; however, it has to govern by the relevant laws, thus there should be reasonable congruence in both the fiscal and the legal structures (Ezeoha and Ogamba, 2010: 8). In fact, both national and global welfare maximization requires a cross-border cash-flow tax regime (Becker and Fuest, 2010: 173). In a corporate governance practice, for instance, we support U.S. rulings and others views in favor of shareholders. The President's Advisory Panel of Federal Tax Reform (2005 In Huizinga and Voget, 2009) has advocated the elimination of worldwide taxation by the U.S. economy. Similarly, the 'best-price' rule under the Securities Exchange Act of 1934 requires that all stockholders be paid the highest consideration paid to any stockholder in connection with a tender offer (Hao and Howe, 2011: 1114). However, a prerequisite likely to be that the legal infrastructure is well

[57] In other words, overseas investment brings new capital, technology and jobs. In 2002, DMNEs had invested roughly US$162 billion in the developing world, up from US$15 billion. In India, for instance, FDI has contributed to the creation of a more than US$10 billion-a-year software and outsourcing industry, which employs 0.5 million people who perform white-collar jobs for foreign companies (see Farrell et al., 2004: 25-29). Also, see the foreign investment and consolidation in the Brazilian telecom sector (Maciel et al., 2006).

developed, measures have taken to reduce extreme volatility of stock prices (Hermes and Lensink, 2000: 509).[58] We also straightway support the following important argument. It is necessary to have extra-territorial application of domestic competition law to regulate the anti-competitive activities of foreign firms taking place in the given country (see Jain, 2012). Similarly, the *McKinsey* suggests some proposals for legal and regulatory regime, and then we eventually endorse and acknowledge their guidelines.

> "Economic and legal framework should make easy fair competition while extenuating the impact of market failures. Further, a fact-based approach and a transparent system are essential for most favorable regulatory decisions. In fact, poor legal environment is the key determinant limiting both productivity and growth across the world economy, particularly developing or emerging countries. Thus, a provision or an act must echo the legal and institutional development; by contrast, adopting international regulations is rarely suitable and can be downright harmful" (Beardsley and Farrell, 2005: 50, 58).[59]

For instance, regulations are a crucial factor for an industry, and therefore managers require spending heaps of time managing them carefully.[60] The peculiar thing is that "over the past decade, the given economy has received a great deal of foreign capital from various kinds of investors. In other words, the capitalist firms have typically used Singapore or Mauritius established firms to invest in India because of their highly sympathetic tax schemes or treaties" (KPMG, 2012). The most important irregular and controversial issue is that "Ministry of Finance [Union of India] retrospectively illuminated that it has the right to tax the income arising from the country irrespective of where the business is incorporated" (see Financial Express, 2012; Kanekal and Ganz, 2012). By contrast, most recently a government panel has indicated that foreign MNEs undertaking mergers or acquisitions in India be obliged to pay tax only prospectively, not retrospectively [looking back] (see Times of India, 2012).

We disagree factually to disclose the essential facts or the loopholes in the given M&A regulatory system. When we read M&A related acts (for example, Companies Act, 1956; Income Tax Act, 1961; SEBI (SAS&T) Regulations, 1997; and Competition Act, 2002) the term 'merger' or 'acquisition' has not been defined or illustrated. More immorally, the acts have used both the terms in various sections without appropriate explanation or interpretation. In the land of laws, if any law, regulation or act uses any term without defining it properly or meaningfully, such acts are treated as unlawful acts. Thus, we

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[58] See, for example, European Commission's enactment Merger Control Regulations, 1989, and amendments in different years (Davison, 2003; Davison and Johnson, 2000). Also, see Ormosi (forthcoming).

[59] In a study of 145 countries, the World Bank has found that the administrative cost of complying with regulations is three times higher for businesses in poor countries than for those in rich ones (as cited In Beardsley and Farrell, 2005: 50).

[60] See Jain et al. (2005).

strongly argue that why do these acts become perpetual in nature for a social good. In other words, why parents name their baby after one month or two month of born? If we say, it is a kind of fashion or culture, and then it is absolutely a wrong approach, because naming born baby is an important "principle of identification" under social jurisdiction. Moreover, many of the terms used in various acts has not explained or interpreted carefully. For instance, Jain (2012: 117) mentions, "there should be a clear definition of the term "dominant position" under the Competition Act, 2002.

Therefore, government and policy makers should take immediate call to rewrite and explain the terms that had left in various acts.[61] To do so, there must be a high-level investor protection committee, which should comprise a group of knowledge and experience persona. For example, the persona or individuals include emeritus professionals from the RBI, SEBI, CCI, Department of Revenue, and Registrar of Companies, as well. More importantly, the committee must accommodate retired policy makers in developed economies (e.g. U.S., UK, Canada, Germany), emeritus academic researchers from the field of economics, finance and law, retired chief judges from the apex court and the state-level jurisdictions, and experienced practitioners like Chartered Accountants, Company Secretaries and Cost Accountants.[62] Indeed, we are not confident that India will dramatically change within a given period without having such aforementioned committees or groups.

8.2. Guidelines and Recommendations for Multinational Managers

According World Bank's governance indicators of 2009, India's political stability (1.51) constitutes the major obstacle due to its bloated government, ethnic conflicts, and hostile neighbors (Luo et al., 2011: 194). We thus strongly acknowledge two motivational idioms before recommending our guidelines. First, the proverb is recorded in John Heywood's […] "look before you leap", which explains 'check that you are clear what is ahead of you before making a decision that you cannot go back on'.[63] Second, in the medical jargon, it is said that 'prevention is better than cure'. In the *British Medical Journal (BMJ)*, Loefler (2004: 115) states that "*prevention* […] is a quote from the goddess Hygiene, yet the vintage is recent and the wisdom is more limited than it appears". In Barbopoulos et al. (2012) and Erel et al. (2012), the authors suggest that "knowledge of the legal system and regulatory provisions, and tax subsidies on international investments or new business ventures is seriously essential for the managers of acquiring enterprises". In other words, both MNEs and managers must read and understand the legal terminology and allied laws

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[61] See the promotional roles of state government and Japanese direct investments in U.S. (Kotabe, 1993).
[62] For instance, the emeritus academic researcher means "one who publishes extensive research articles in highest impact factor journals within their field and experience of consultancy or project handling".
[63] Source http://www.phrases.org.uk/meanings/look-before-you-leap.html.

associated with specific industries prior to establishing their alliances or acquisitions in a given world economy especially countries like India. More importantly, one should have his (her) own strategy to handle particular situation down the line ranging from a watchman to higher-level authorities, because most foreign managers experience lots of difficulties like language, culture, and system in developing countries, for instance, Asian region. In fact, we argue that bribe and corruption would adversely affect managers' decisions in different settings. We also contend that lobbying and politicking are being the most influential determinants of DMNEs new venture decisions and long-term corporate strategies. In Schöllhammer and Nigh (1986), the authors suggest, "one should not only examine the conflictive political issues within the foreign or host economies, but also supportive political improvement and changes in intergovernmental dealings". We therefore suggest that having a coordination, network or alliance with project consultants would help in understanding the current business scenario in a given country. Nevertheless, they should choose the best choice of business strategies to tackle the government, and to compete with local companies. In particular, we recommend that one should be transparent in his (her) system instead of contending the government for 'transparent system'. We thus conclude our study.

8.3. Concluding remarks

In this paper, we analyze and discuss the India's long-time delayed cross-border acquisition 'Vodafone-Hutchison deal' in the view of international taxation and litigation issues with Union of Indian since 2007. (Of course, we select this case with our utmost interest and attention.) To do so, we perform case-investigation study to draw fruitful implications for economy and managers, and insights that are concealed in specific for social good. We therefore present our conclusions from the aforementioned compendium of extensive CB-M&As literature related to legal framework in general and taxation in specific, India's M&A regulatory framework, systemic case analysis, and theory testing and development. A novel finding of our study indicates that a given country's weak regulatory system benefits both the acquirer and the target firm; at the same time, this economic behavior adversely affects its fiscal income or budget. Further, our key observations are as follows. First, the Vodafone-Hutchison transaction should not countable as Indian offshore transaction, because the deal has no connection with territory of India under the theory of economic geography. More importantly, tax authorities have utterly failed to collect at least a penny of capital gains tax from the buyer 'Vodafone'. Thus, it is a 'share purchase agreement' between buyer and seller that has occurred outside the country. In other words, it is an indirect transfer of shares. Second, we argue that capital gains tax could not be imposed on such offshore deals because of one strong reason. Thus, it is the loopholes neither in the

present taxation system nor in the outstanding intelligence of Vodafone, but it is an act of intention, misrepresentation, or inefficiency of tax authorities. If so, it has to be one – when the government has amended many policies and regulations in 2006, what was the intention behind India-Mauritius (or Cayman Islands) tax treaty or free trade agreement (FTA), which had not amended in the view of withholding tax and indirect transfer of shares/securities? Nevertheless, we are sure that some act of fraud or misrepresentation could happen at the backend of regulatory bodies (or, bureaucrats) who were controlling the Department of Revenue under the Ministry of Finance during that period. If one can investigate seriously, it is easier to find a great amount of loopholes in the Indian constitutional framework and legal system. Consequently, these loopholes shall be filled in the forthcoming amendments.

Third, we support apex court's final judgment in favor of Vodafone that the deal has no nexus with territory of India. Because, a respectful court's bench or chief justice give his or her judgment based on book of law or existing laws. Thus, a judgment should not deliver based on future predictions or retrospective amendments. For instance, if judgment is given based on retrospective in nature, we strongly argue "jails must be empty without criminals", because every criminal was good in conduct before a crime. In this case, we oppose that retrospective change in tax laws would adversely affect DMNEs business operations, foreign investor community, continuity in business, and their bulky investments in India. As a result, country's economic freedom and corporate governance standards could sharply collapse. (If DMNEs sell their equity stake or asset sale to local companies in India, thus, they could move to litigation and complex free system in other parts of the world especially Africa and Middle East regions.) Moreover, how can you force a retrospective policy in 2012 Budget guidelines that would be implemented roughly from 1962-63? Therefore, the Indian government should realize their undesirable attack on foreign investor or MNEs in various understandings like investor protection, corporate ownership structure and double taxation. However, government should think deeply before going to implement GAAR or any other action that would influence both public and corporate governance for a social good. In addition, government should encourage young researchers who can really bring the research outcome for policy recommendations and regulatory framework that likely to be IB, finance and law specializations.

Yet, our study has few limitations (like, Choi and Brommels, 2009). We have carefully recorded the events of the case and arranged them in chronological order, and then it has systematically analyzed in retrospective manner. However, we admit the jeopardy that the investigation and discussions of the case might be inclined by untrue memories or falsification of data extracted from print media and electronic sources.

We therefore suggest some areas that thirst future investigation.[64] For instance, determinants of foreign acquisitions in emerging economies, interview-based case study research in pre-merger decision making process and post-merger integration, cross-comparative analysis of domestic and foreign acquisitions, and impact of policy reforms on corporate restructuring strategies. More purposely, our new theory–Farmers Fox Theory– and propositions would help scholars in doing similar investigations and related empirical studies on *Institutional Voids in Emerging Economies*. In addition, scholars are encouraged to do further research in developing new theories, models, propositions and hypotheses for improvement in existing knowledge related to border-crossing alliances, joint ventures and M&As. Last but not least, what are the dramatic macroeconomic changes that have occurred in both developed and emerging economies around the recent global financial crises? If so, do they influence corporate earnings, then which industry is adversely affected?

[64] Also, see Aharoni and Brock (2010), Bell et al. (2012), Buckley and Casson (2009), Dess et al. (1995), Luo et al. (2011), Peng (2004), and Seno-Alday (2010).

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Note: (*), the asterisk refers to some of the important Indian Bare Acts.

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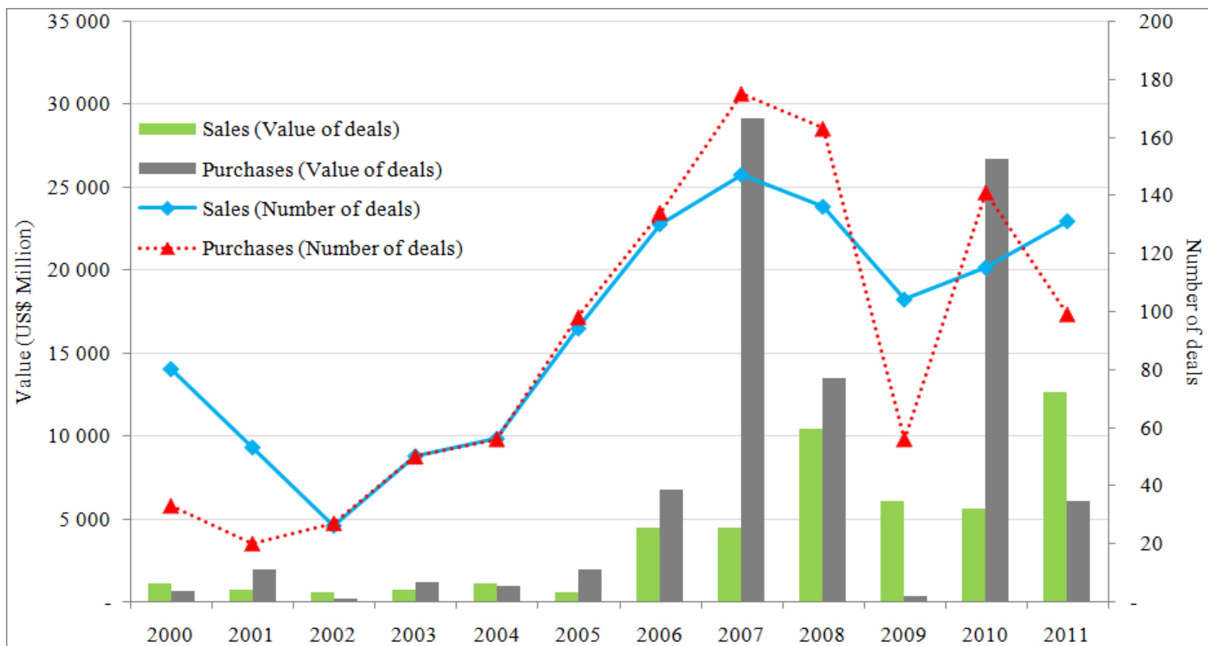

Figure 1. India's cross-border mergers and acquisitions during 2000-2011
Source: Authors plot a graph based on data extracted from the UNCTAD Statistics refer to worldwide foreign direct investments, and cross-border mergers and acquisitions.
It was appeared in my paper, **Reddy et al. (2014a)** – *Farmers Fox Theory*.

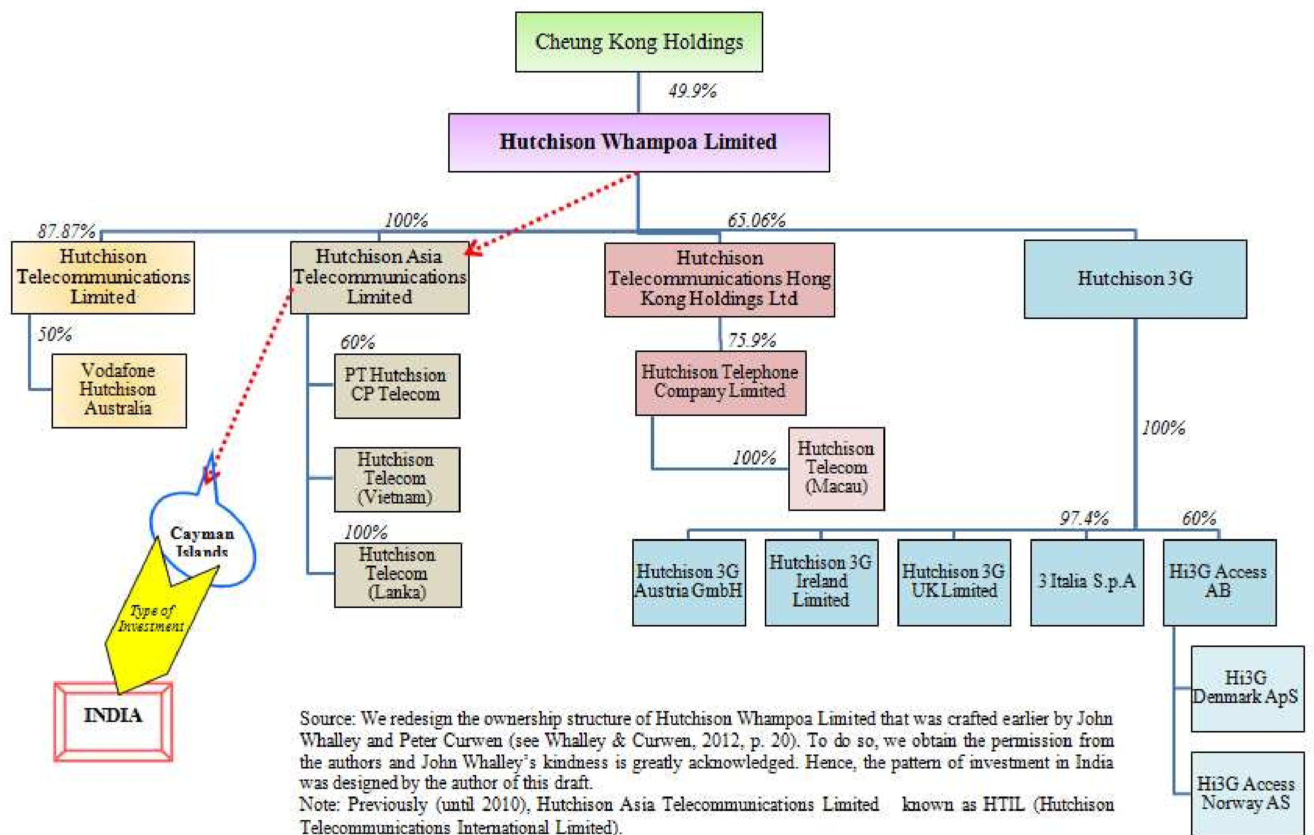

Figure 2. Ownership structure of Hutchison Whampoa Limited (HWL)
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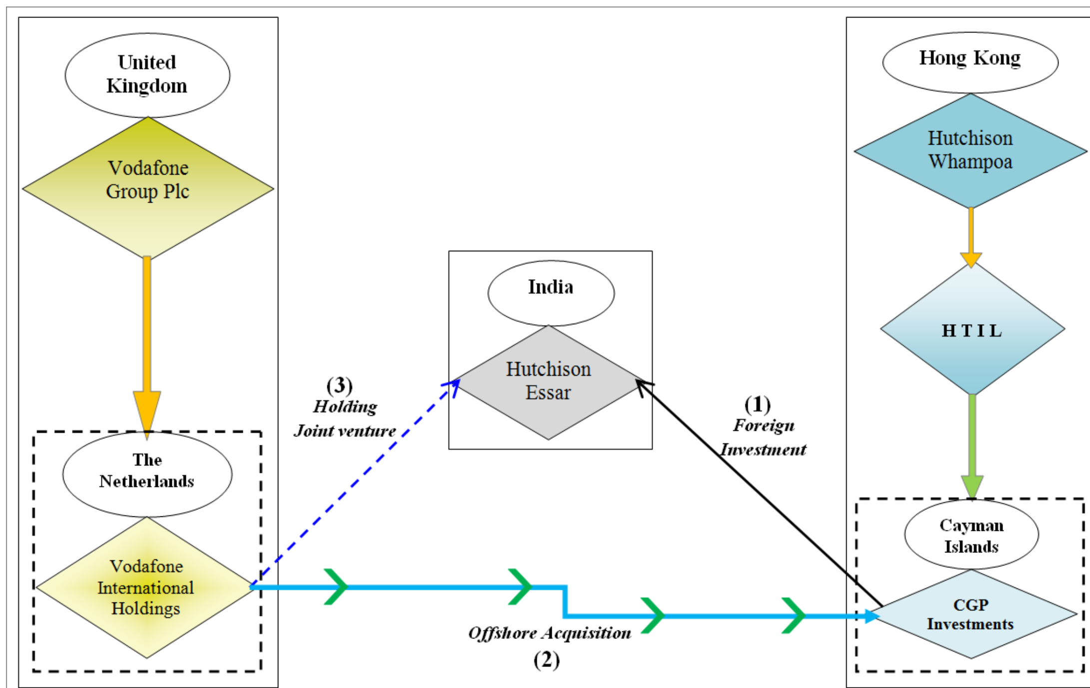

Figure 3. Structure of Vodafone-Hutchison deal

Notes: (1) Hutchison Whampoa's HTIL has invested indirectly in Hutchison-Essar* while having 100% equity holding in CGP Investments, (2) Vodafone's Vodafone International Holdings has acquired HTIL's 100% equity holdings in CGP Investments, and (3) as a result of direct acquisition occurred in Cayman Islands, Vodafone become a joint venture partner in India's Hutchison-Essar. *After the deal, Hutchison Essar has been changed to 'Vodafone Essar', and thereafter, on October 11, 2011, it again referred to "Vodafone India Limited" (see VGP-AR, 2012).

It was appeared in my paper, **Reddy et al. (2014a)** – *Farmers Fox Theory*.

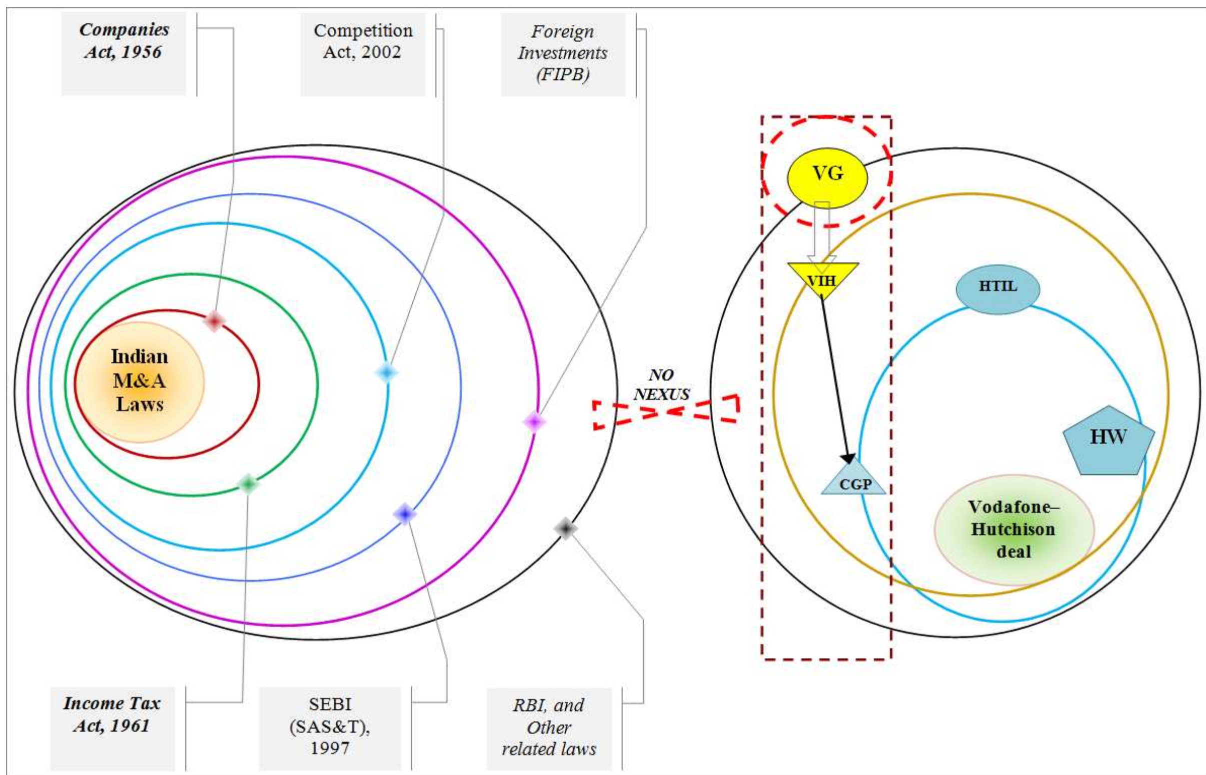

Figure 4. Systemic analysis of Vodafone-Hutchison deal

Notes: VG – Vodafone Group Plc, UK; VIH – Vodafone International Holdings, The Netherlands; HW – Hutchison Whampoa Limited, Hong Kong; HTIL – Hutchison Telecommunications International Limited, Hong Kong; and CGP – CGP Investments (Holdings) Limited, Cayman Islands.

It was appeared in my paper, **Reddy et al. (2014a)** – *Farmers Fox Theory*.

Box 1. Time-line of the deal

	Date		Description
◉	2006	December 23	Vodafone started negotiations for Hutchison stake in Hutch-Essar Limited (HEL) (a listed entity in India). Of course, Reliance Communications was in the bidding race during the same week.
⇛	2007	January 9	Vodafone initiated the due diligence work of Hutchison Whampoa and Hutch-Essar Limited to asses and propose its decision. However, by Feb 10, 2007, the bidding for Hutch was in process, and received proposals from various bidders, for example, Hinduja's with Qatar Telecom.
☂	2007	February 11	Vodafone International Holdings (VIH), a Netherland-based subsidiary of Vodafone has acquired 100% equity stake of Hutchison Telecom International Limited (a wholly owned subsidiary of Hutchison Whampoa Limited) in CGP Investments (Holdings) Ltd, Caymon Islands. As a result, Vodafone has become the joint partner in Indian-based HEL, for US$11.2 billion (this value was printed in different print-media–news papers). Therefore, the new joint venture would be Vodafone-Essar Limited (now, Vodafone India Limited).
⇛	2007	March 15	Vodafone and Essar reached agreement on jointly managing the (previous) HEL.
◊	2007	May 5	Vodafone-Hutch deal gets approval from India's Finance Minister. In particular, between March 16, 2007 and Many 5, 2007, the deal was scrutinized by FIPB, and other regulated bodies.
☛	2008	December 3	Bombay High Court ((BHC), a state-level jurisdiction of Maharastra located in Mumbai) permitted the tax authorities to investigate whether the deal is liable for capital gains tax in India.
☞	2010	May	The tax authorities issued an order of holding that they had the necessary jurisdiction to proceed against Vodafone. Then, Vodafone filed a writ petition before the BHC objecting the tax authorities' action, and stating that the transaction had no nexus with the territory of India.
☟	2010	September 8	BHC has dismissed the petition by stating that the diverse rights and entitlements acquired by Vodafone had sufficient connection with the territory of India.
☝	2010	September–October	Contending the BHC's judgment, Vodafone filed a writ petition in the apex court "Supreme Court of India" (SC).
✒	2010	November 15	SC asked VIH to deposit Rs 2.5 billion; thus, the amount is merely to safeguard the interest of the tax department until the court makes the final judgment.
↧	2010 – 2011		During this period, several rounds and discussions have been taken place between Vodafone and Union of India in the apex court.
✌	2012	January 12	Finally, SC makes its judgment in favor of Vodafone. Thus, SC has disagreed with the conclusions arrived at the BHC, and stating that "tax authorities has no territorial tax jurisdiction to tax the offshore transaction, and then directed the tax authorities to return the Rs 2.5 billion deposited by the Vodafone with 4 per cent interest within two months, and the bank guarantee of Rs 8.5 billion submitted at the SC registry within four weeks.

Source: Authors organized' based on information collected from BMR (2012), Deloitte (2011), Economic Times (2012), Hindu (2012), KPMG (2012), Singhania and Dastaru (2012), and VGP-AR (2007, 2008).
Notes: We have no case description for the year 2009. Also, see *Appendix C* for court proceedings.
It was appeared in my paper, **Reddy et al. (2014a)** – *Farmers Fox Theory*.

Table 1. Theory testing and case illustrations	
Theory and its description	Theory testing Illustrations from the given CB-M&A case 'Vodafone-Hutchison deal'
Theories in INTERNATIONAL ECONOMICS	
Theory of Foreign Direct Investment (Caves, 1971, 1974; Hymer, 1970, 1976; IMF; UNCTAD). In Hymer's view, key motive behind FDI is to gain control over marketing facilities in order to facilitate the spread of their products (Hymer, 1970: 445); for instance, have to do with the prudent use of assets, and (ii) control of the MNE is desired in order to remove competition between that overseas firm and firms in other markets (Hymer, 1976: 23–25). More specifically, Caves (1971) indicates that there are two important economic features of FDI: (i) it ordinarily effects a net transfer of real capital from one country to another; and (ii) it represents entry into a national industry by a firm established in overseas market. According to IMF, "FDI enterprise is an enterprise (institutional unit) in the financial or non-financial corporate sectors of the economy in which a non-resident investor owns 10% or more of the voting power of an incorporated enterprise or has the equivalent ownership in an enterprise operating under another legal structure".	As mentioned in previous sections, Vodafone Group Plc is Britain's diversified telecom MNE that has an offshore subsidiary 'VIH' located in the Netherlands. On the other hand, HWL is Hong Kong's largest conglomerated MNE, which has an on-shore Asian subsidiary firm 'HTIL' headquartered in Hong Kong; thus, HTIL has 100% equity stake in CGP Investments (Holdings) Limited located in Cayman Islands. Of course, both MNEs have significant equity interest in their respective subsidiaries. The key point is that CGP owns a 51.95% indirect shareholding in HEL (an Indian-listed entity). According to FDI theory, Vodafone buys a HTIL's holdings in CGP Investments through its subsidiary firm VIH for US$10.9 billion. We therefore suggest that this equity acquisition has satisfied the views of Hymer and Caves and the IMF.
Market Imperfections Theory (Hymer, 1970, 1976; Brewer, 1993). The firm's decision to invest overseas is explained as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries (Hymer, 1970).[a] However, FDI tends to reduce the number of alternatives facing sellers and to stay the forces of international competition (Hymer, 1970: 443). In particular, If the market is imperfect, the owner may not be able to appropriate fully the returns […] some firms have leverage in specific doing, which may find it profitable to utilize this leverage by instituting overseas business (Hymer, 1976: 26–29). Conversely, market imperfections are impediments to the "simple interaction of supply and demand to set a market price" (as cited In Brewer, 1993: 103–104). Further, it can be increased and/or decreased by government policies, because these are relevant, and have variability.	Indian telecommunications sector is one of the imperfect markets in Asia. In this case, Vodafone has indirectly invested in a given economy through the direct acquisition of HTIL stake in CGP Investments. More notably, when Hutchison entered in India was a single entity that is globally diversified and telecom MNE, which had experienced in providing multi-utilized and differentiated services in European market. In fact, both Vodafone and Hutchison have better understanding terms and cooperative agreements in most European markets. As of acquisition, Vodafone gains a great deal of mobile subscription base, market share and revenue during the post-acquisition (see Appendix B). To our knowledge, this deal has augmented the Vodafone's market strength and international business network.
Eclectic Paradigm, OLI framework, or International Production Theory (Dunning, 1977, 1980, 1988, 1995, 1998, 2000, 2001). Dunning suggests that a firm must possess Ownership advantages, Location synergies, and Internalization (OLI) within its activities or structures while making it internationalization. For instance, the condition for international production is that it must be in the best interest of firms that possess ownership-specific advantages to transfer them across national boundaries within their own organizations rather than sell them (Dunning, 1988: 3). He also states that increase in overseas production, the tendency to internalize the overseas makers for these, and the attractions of a location for overseas production. Hence, it will vary based on the motives underlying such production activities (Dunning, 1988: 5). This paradigm also explains the extent (market seeking), form (resource seeking), and pattern (efficiency seeking) of overseas production.[b]	Ownership advantages: Vodafone Group Plc is a parent corporation, through its subsidiary VIH, has acquired Hutchison Whampoa's subsidiary HTIL 100% equity stake in CGP Investments. As a result, Vodafone has become the major partner by 51.95% equity holdings in the Indian-based joint venture Hutchison-Essar (HEL). Further, it has acquired an additional 22% equity stake in Vodafone India Limited (VIL) from its joint venture partner Essar Group (also, see Vodafone profile that depicted in the previous sections). Location advantages: see Appendix B for India's telecom market potential and its growth during 2002-2012. From the post-acquisition decision, we strongly believe that Vodafone can experience the market scope with their service differentiation. Thus, it is an accomplishment of market seeking motive thus meets the criteria of Dunning's eclectic paradigm. Internalization advantages: See, case proofs that presented in 'internalization theory'.

Theories in INTERNATIONAL BUSINESS	
Uppsala Theory of Firm Internationalization (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990, 2003, 2006, 2009). Theory of firm internationalization is an account of the interaction between attitudes and actual behaviour. Johanson and Wiedersheim-Paul (1975: 306) presume that the firm first develops in the local markets and that the internationalization is the consequence of a series of incremental decisions. Hence, obstacles such as knowledge and resources can be declined through incremental decision-making and learning about the overseas markets. In particular, firms setup agencies, for instance, a sales subsidiary and production facilities that play a vital role in internationalization process (Johanson and Wiedersheim-Paul, 1975: 309). Further, it also assumes that the state of internationalization affects perceived opportunities and risks, which in turn influence commitment decisions and current activities (Johanson and Vahlne, 1990: 12). While the revised model depicts dynamic, cumulative processes of learning, as well as trust and commitment building (Johanson and Vahlne, 2009: 1424).	This theory is somewhat suitable to explain the current case. However, Vodafone is not new in internationalizing their operations, for instance, the company's global presence in terms of number of markets has increased dramatically at three-fold from 12 in 1998 to 38 in 2007, and thereafter, augmented to 40 in 2011 (as mentioned in 'company profile' in this paper). Thus, we understand that Vodafone is a globally diversified telecommunications MNE that offers different premium services in different markets. According to theory, the company has entered across the developed and developing economies through incremental decision-making. Of course, this decision made the company as world's second largest telecom operators based on subscribers scale. As of the deal that would help the company for further diversification in other South Asian and East Asian countries.
Internalization Theory (Buckley and Casson, 1976; Buckley, 1982, 1988; Buckley and Casson, 1998, 2009). It is a firm level theory. In Hymer's (1970: 445) view, MNEs must adapt to local environment in each country. In addition, they must coordinate their activities in various parts of the world and stimulate the flow of ideas across their ownership network. Indeed, internal flows were coordinated by information flows through the ''internal markets'' of the firm (Buckley and Casson, 2009). It analyzes the choices made by the owners, managers, or trustees of enterprises (Buckley and Casson, 2009). Further, optimum size of firm is set where the costs and benefits of further internalization are equalized at the margin (Buckley and Casson, 2009: 1564). The authors identify two types of internalization: operational and knowledge internalization.	We strongly believe that size and ownership structure of a corporate headquarter in multinationals play a key role in internalization process that to be effective or worse (see, for instance, Collis et al., 2012). In other words, there is a great deal of coordination, cooperation and control between Vodafone group and its subsidiary firm VIH. Similarly, there must be good understandings on ownership transfer between Hutchison Whampoa and its all subsidiaries especially HTIL, and CGP Investments Holdings. In sum, such business relations across the national-borders would help while entering in third-party country locations like India. More specifically, we suggest that internalization has played an important role both in completion of deal and in winning the tax controversies against Indian courts. In fact, transaction cost was reduced because of no capital gains tax.
Liability of Foreignness (Coase, 1937; Hymer, 1970, 1976; Caves, 1971; DiMaggio and Powell, 1983; Zaheer, 1995; Zaheer and Mosakowski, 1997; Luo et al., 2002; Sethi and Guisinger, 2002; Petersen and Pedersen, 2002; Cuervo-Cazurra et al., 2007; Boehe, 2011; Bell et al., 2012; Denk et al., 2012). Originally, in his doctoral thesis [1960] at MIT, Hymer (1976) introduced this concept. In his view, LOF is composed of three factors: exchange risk of operating businesses in foreign countries, local authorities' discrimination against foreign companies, and unfamiliarity with local business conditions (as cited In Petersen and Pedersen, 2002: 342). He termed the same as 'costs of doing business abroad'. In fact, it has been pointed out in Coase's work that foreign firms experience greater transaction costs compared to local firms because of foreignness (Coase, 1937). More importantly, Caves (1971) discusses about foreign exchange, multinational ownership and taxation issues. DiMaggio and Powell (1983: 150) identify three mechanisms through which institutional isomorphic change occurs: (1) coercive isomorphism that stems from political influence and the problem of legitimacy; (2) mimetic isomorphism resulting from standard responses to uncertainty; and (3) normative isomorphism, associated with professionalization. In the modern era, Zaheer (1995: 343) argues that LOF could arise at least from four routes: [i] costs	This theory somewhat supports our case study observations. Unfortunately, most LOF studies examine or investigate the MNEs and its subsidiaries performance during the post-entrance or post-setup of units in a given economy and compare those results with local firms. Unlike these studies, our case shows the legitimate evidence at the foreign market entry-level especially in developing economies. Thus, India's frustrated and rigid regulatory behavior, and tax framework are the root causes behind world's long-time delayed cross-country acquisition. To support this line, we present the time line of the deal (see Box 1). In particular, Vodafone has faced various government allegations at two jurisdictions, namely BHC (a state-level jurisdiction) and SC (apex court of a given country). During these five years (2007-2011, Vodafone might have spent at least two per cent of the deal amount, which is an additional transaction cost to the company. In fact, one cannot focus on the company operations and the top-level management must answer various queries raised by the directors in board meetings. Indeed, this issue again raises the controversies inside the board; however, they have managed well in a given situation. In a nutshell, we agree with the

directly associated with spatial distance, [ii] specific costs based on a particular company's unfamiliarity (or, newness), [iii] costs resulting from the host country environment (e.g. legitimacy, nationalism), and [iv] cost from the home country environment (e.g. restrictions on high-technology sales). Furthermore, Cuervo-Cazurra et al. (2007) classify the difficulties in internationalization: loss of an advantage of resources transferred abroad, creation of a disadvantage by resources transferred abroad, or lack of complementary resources required to operate.	propositions of LOF that suggested by Hymer, Coase, Caves, Zaheer, Cuervo-Cazurra et al. and others.
Related theorem: ***Subsidiary-Specific Advantages*** (Vernon, 1966; Hymer, 1970; Jarillo and Martinez, 1990; Birkinshaw, 1996, 1997; Birkinshaw et al., 1998; Rugman and Verbeke, 2001; Williams, 2009). In Hymer's view, there are two kinds of division of labour: the division of labour between firms coordinated by the markets; and the division of labour within firms, coordinated by entrepreneurs (Hymer, 1970: 441). Further, a subsidiary has the potential to drive the local awareness, global integration and universal learning capabilities (Birkinshaw, 1997). Of course, subsidiary-specific advantages can only be sustained in the long run when supported by the parent company (Rugman and Verbeke, 2001: 244). Thus, Williams (2009) hypothesizes that "greater the level of networking between units of the MNE, the more likely it is that the MNE will pursue global initiatives, and the greater the sharing of strategic goals by subsidiary managers, the more likely it will be that the MNE will pursue global initiatives".	It is fact that most MNEs perform business operations through their efficient subsidiaries. In this case, Vodafone's subsidiary 'VIH in the Netherlands' and Hutchison's subsidiary 'HTIL' – are well established in the respective locations. Moreover, they have prior coordination and experience in European telecommunications market. We strongly agree with Hymer (1970) […], and Rugman and Verbeke (2001) propositions, and suggest the established subsidiaries help parent corporations while seeking or entering in a third location (for instance, in this case India is the third location for both Vodafone and Hutchison). Simply, they saved lots of taxes and other deal registration charges through their subsidiaries.
Theories in ORGANIZATION STUDIES	
Institutional Theory (Selznick, 1948; Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983; Scott, 1987; Ashforth and Gibbs, 1990; Suchman, 1995; Tolbert and Zucker, 1996; Davis et al., 2000; Dacin et al., 2002; Trevino et al., 2008). The action system is imbedded in an institutional matrix, in two forms: formal structure of delegation and control, and formal system and the social structure (Selznick, 1948: 25). In Meyer and Rowan (1977: 341–351), the authors suggest that firms that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities […]. Further, institutional rules may affect organizational structures and their implementation […]; thus, relationships that compose and surround a given organization. Briefly, institutional isomorphism promotes the success and survival of organizations. […] increases the internal organizational efficiency (DiMaggio and Powell, 1983: 153). In others view, for instance, Ashforth and Gibbs (1990: 177) mention that organizations are said to be legitimate to the extent that its means and ends appear to conform to social norms, values, and expectations. In fact, the structure and behaviour of organizations become institutionalized through isomorphic pressures (Davis et al., 2000: 242). Trevino et al. (2008) argues that institutionalization is a process that works through all three pillars—cognitive, normative, and regulative—and that this process can legitimize a host market for foreign investors.	This theory fairly supports our case study observations. While testing this theory, most previous studies do not reveal the conclusions or findings at foreign market entry level especially cross-border mergers/acquisitions. In fact, previous scholars investigate the given sample from the 'firm's view-point' and not the 'nation's perspective'. On the one hand, we agree that Indian institutional framework is rigid, complexity, controversy and frustrated bureaucratic capital and unethical political behavior, no meaning of accountability or responsibility. However, this theory does not explain whether these institutional behaviors affect the given economy's fiscal revenue or budget. Thus, our theory explains this important dichotomy that how a weak regulatory system benefits both the acquirer and target firm in the given economy international transactions, for instance, FDIs and CB-M&As. More importantly, our theory can be tested at two-levels, first at firm-level for shareholders goodness (investor protection), and second at country-level for public good.
Theory of Transaction Cost Economics (Coase, 1937; Hymer, 1976; Williamson, 1975, 1979, 1981; Hennart, 1982, 1994; Anderson and Gatignon, 1986; Rugman and Verbeke, 1992). Coase (1937: 387–390) assumes that "the direction of resources is dependent directly on the price mechanism; thus, a firm would be profitable when there is a cost of using the price mechanism. It is important that "entrepreneur has to carry out his function at less cost […] because it is always possible to revert to the open market if he fails	Regarding this theory, we use the present case 'Vodafone-Hutchison deal' as a transaction cost. In particular, the cost of deal depends on what method that they (buyer and seller) use in doing valuation of Hutchison (HTIL and its share in Indian joint venture business), and market potential. (It falls into the corporate finance – valuation theory or accounting going-concern concept.) However, we argue that the transaction cost of the deal is significantly increased due

to do this (p. 392). This theory relies on two behavioral assumptions: (i) the recognition that human agents are subject to bounded rationality, and (ii) at least some agents are given to opportunism (Williamson, 1981: 552–553). Conversely, Hennart (1994: 203–204) discusses mainly this concept from the view of transaction cost approach. Thus, co-operation between different sellers is required based on price system for maximization of profit or cash flow. He also suggests that "rents are earned whenever the benefits of co-operation are greater than the costs of organizing it".	to delay in court proceedings and judgment. For example, cost of legal proceedings, legal documentation, court charges and fees, cost of media, and other related costs. Moreover, it is difficult to predict or estimate the trade-off between the deal value, market potential and uncommon regulatory shocks (costs). It is fact that one cannot imagine the affect of government unusual behaviors or actions. In a time-bound, one has to face these challenges while entering in countries like India.
Organizational Learning Theory (Cangelosi and Dill, 1965; Hymer, 1970; Caves, 1971; Fiol and Lyles, 1985; March, 1991; Kogut and Zander, 1993; Barkema and Vermeulen, 1998; Bresman et al., 1999; Crossan et al., 1999). In Cangelosi and Dill's (1965: 203) view, "organizational learning is sporadic and stepwise rather than continuous and gradual, and that learning of preferences and goals goes hand in hand with learning how to achieve them". Indeed, the essentials of theory include preferences, external shocks, routines, imperfect control of outcomes, and process for change. In Penrose's (1959) view, two kinds of knowledge are depicted: objective knowledge, and experiential knowledge. However, learning is not explicit. In particular, FDI is an instrument, which allows business firms to transfer capital, technology, and organizational skill from one country to another (Hymer, 1970: 443). On the other hand, Fiol and Lyles (1985: 811) define that "the development of insights, knowledge, and associations between past actions, the effectiveness of those actions, and future actions". In fact, there are two levels of learning: higher-level and lower-level. Hence, the ultimate goal of the learning is to improve the existing performance for sustaining in future. In others view, "firms compete on the basis of the superiority of their information and know-how, and their abilities to develop new knowledge by experiential learning" (Kogut and Zander, 1993: 640). In other words, a firm that operates in diverse national settings and product settings could develop a rich knowledge structure and strong technological capabilities (Barkema and Vermeulen, 1998: 7).	From the organizational learning perspective, this case is the best example to explain what Vodafone and Hutchison have experienced so far in the given economic setting. We found factors like stress, control of internal factors, experience of external shocks, patience and other associated knowledge factors. Indeed, we believe that Vodafone can strengthen their future internationalization plans through the experiences at (with) India (government officials). On the one hand, they might have improved the knowledge, for instance, liability of foreignness, liability of localness, liability of newness, informal relationships that exist in the current Indian public administration and judicial system; telecom market potential; and so forth of economic, legal and administrative behaviors. Of course, it is too difficult to estimate or measure the knowledge or experience. We therefore suggest that both institutional and regulatory, and economic system that exhibited in India would adversely affect MNEs (if establish for short-term) and benefit MNEs (if establish for long-run).
Related theorem: ***Learning-by-Doing*** (Kolb, 1984; March, 1991; Vermeulen and Barkema, 2001; Nadolska and Barkema, 2007; Collins et al., 2009). A well-known strategy researcher Penrose (1959) suggests that "the knowledge and experience are the most important sources of organization learning". In line with this, Collins et al. (2009: 1329) hypothesize that "organization learning associated with a firm's prior acquisition experience increases the likelihood the firm will engage in subsequent international acquisitions". Thus, Collins et al. find that prior acquisition experience within a host country affects subsequent CB-M&As in that market. Thus, the moral of this theorem is that organizations learn from their previous corporate strategic actions.	As mentioned in the Vodafone profile, in 2000 it has acquired Germany's Mannesmann for US$231 billion, which was the biggest deal in Vodafone's corporate history. In 2006, it has sold its Japanese unit to Softbank and Swedish unit to Telenor. […] more recently, its Netherlands-based firm, Vodafone Libertel BV has acquired Telespectrum-DJ. Thus, we understand that Vodafone has a great amount of inorganic-strategy experiences like alliances, network coordination, mergers, acquisitions, joint ventures and sell-offs prior to acquire Hutchison stake for Indian operations. We therefore agree with Collins et al. (2009) theorem that "firms learn (acquire) new knowledge (Indian operations), and firm's prior acquisition experience increases the chances of subsequent overseas deals.
Theories in STRATEGIC MANAGEMENT	
Resource-Based-View (RBV) Theory (Penrose, 1959; Wernerfelt, 1984).[c] In Penrose's view, "there is a close relation between the various kinds of resources with which a firm works, and the development of ideas, experience, and knowledge of its managers and entrepreneurs" (Penrose, 1959: 85). In line with Wernerfelt (1984), this theory presumes that a given firm shall utilize both tangible and intangible	We test this theory at ownership view and profit (growth) view. As of March 31, 2012, Vodafone had a 64.4% interest in VIL through its wholly owned subsidiaries, and a further 20.1% indirect holding giving an aggregate 84.5% equity interest or capital control (VGP-AR, 2012: 118). On the other hand, Vodafone's subscriber-base in India has drastically increased from

resources for its sustainable growth. It also hypothesizes that firms possess infrequent and significant resource advantage when competitors do not have such reproduce resources (or, core competency) (see Prahalad and Hamel, 1990). In Rugman and Verbeke (2002: 770) view, "the firm's ultimate objective in a resource-based approach is to achieve sustained, above normal returns, as compared to rivals". In others view, a firm may grow much faster while choosing inorganic strategies compared to organic strategies. However, a firm expansion requires a great deal of resources […] in whit it gains experiences over its growth plans.	22.31 million in 2006 at a massive growth rate 534% to 147.75 million in 2011. We believe that this momentous market growth help the Vodafone to acquire an additional 22% equity stake in VIL from its joint venture partner 'Essar Group' for £2.6 billion on July 1, 2011. It is worth stating that Vodafone has increased their ownership in VIL very cleverly with subsequent to their progress in Indian subscriber-base.
Theory of Competitive Advantage (Porter, 1985, 1990). This theory can be viewed from the lenses of RBV theory. A firm is profitable if the value exceeds the costs involved in developing the product or service. Porter suggests that the competitiveness at the firm level organic strategies, for instance, low-cost, differentiation and focus. More specifically, competing in associated industries with coordinated value chains can lead to competitive advantage through interrelationships (Porter, 1985: 34). Thus, creating value for buyers that exceeds the cost […] value, as a substitute of cost, should be used in analyzing competitive position of a firm (Porter, 1985: 38). On the other hand, we found that most strategy researchers advocate that Porter's (1990) diamond framework explain the international competitiveness of countries.	We test this theory from two perspectives, namely Vodafone's view and a given country's view. On the one hand, prior to enter in the Indian-landscape Vodafone has gained worth-full competitive advantage in European market. In particular, competitive advantage in terms of low-cost service provider, service differentiation (for instance, one can watch recent innovative advertisements on Vodafone services), and focus market, for example, semi-urban and rural markets (see Appendix B). Of course, Akdoğu (2009) suggests that telecom firms gain a competitive edge through acquisitions. On the other hand, Indian telecom market and its residing consumers would experience advanced services like 3G, 4G and other allied products. Since 1994, Indian mobile customers have attracted mostly by both the mobile specifications and features, and service differentiation.
Theories in CORPORATE FINANCE	
Information Asymmetry Theory (Akerlof, 1970; Spence, 1973).[d] This theory reveals that at least one party (possibly, a buyer) has relevant or better information compared to other party (possibly, a seller) in transactions where one presumes to surrender and other presumes to receive. Further, it creates an act of imbalance in a given transaction, therefore it may go wrong, delay, or failure. Akerlof (1970) uses automobile market as a finger exercise. He suggests that social and private returns differ, and in some cases, governmental intervention may amplify the welfare of all parties, or private institutions may arise to take advantage of the potential increases in welfare that can accrue to all parties (Akerlof, 1970: 488). There are models like adverse selection and moral hazard. Spence (1973) originally suggests the "market signaling" as a solution for adverse selection models of information asymmetry that initially studied in light of looking for a work or job.	Similar to institutional and LOF theories, this theory somewhat useful or testable in our case. In other words, Vodafone (may be its M&A advisors) has better information on Indian constitutional and legal framework compared to government officials (revenue department and tax authorities). Thus, this information helps Vodafone to win against the counter arguments and penalties put forwarded by the tax officials. Finally, Supreme Court of India has delivered its judgment in favor of Vodafone by stating that "existing book of law does not allow tax authorities to ask or impose the capital gains tax on Vodafone-Hutchison deal". It is fact that Vodafone has experienced lots of difficulties for making a foreign market entry into an unethical and drama-oriented politician nation. We strongly believe that this information would help Vodafone in future decision making while staying or doing operations for Indian consumers.
Agency Theory (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Jensen, 1986). The firm is a 'black box' operated as a legal entity […] thus maximize the profit that should be more than net present value (Jensen and Meckling, 1976). Agency theory explains the contractual relationship between shareholders (owners) and managers of a given firm. For instance, managers being offered by the incentives as a cost of owners for searching new ventures that allow them to gain abnormal return compared to existing advantages. In others view, it is concerned with aligning the interests of owners and managers and is based on the premise that there is an inherent conflict between the interests of a firm's owners and its managers. In a nutshell, agency theory argues for a preponderance of outside directors to control for management misuse	According to agency theory, assumed that managers do not perform things in timely-manner and they exploit the shareholders funds. Of course, this theory somewhat explains some issues involved in our case. For example, managers and M&A advisory firms could have gained significant incentives from this deal, which were paid by Vodafone and Hutchison. On the one hand, Vodafone has entered in a potential market, thus paid the massive amount or premium. On the other hand, HWL has been recovered from the existing loss position. As of mentioned in previous sections, Whalley and Curwen (2012b) argue that HTIL could have represented loss in 2007 when no sale of its 100% equity interest in Cayman Islands based CGP Investments (Holdings) Limited to

of shareholder funds.[e]	Vodafone. It is worth mentioning that HTIL has invested roughly US$2.6 billion in India since 1995 (Tele.net.in, 2007). In this regard, one can estimate that Li Ka-shing has outstandingly gained about US$8.3 billion for the period that stayed in India (1995-2006).
Market Efficiency Theory or Efficient-Market Hypothesis (EMH) (Fama, 1965, Fama et al., 1969; Fama, 1970, 1998). In Fama's (1970: 384) view, […] in an efficient market, prices "fully reflect" available information. As a result, one cannot always obtain abnormal returns on a trade-off or risk-adjusted basis in a given period of investment is made. Fama et al. (1969: 1) indicate that "independence of successive stock-price changes is consistent with an "efficient-market". (In other words, a market that adjusts rapidly to new information.) Further, Fama (1970) suggests that adjustment of security prices to three relevant information subsets: weak form tests (historical prices), semi-strong form tests (public announcements like stock splits, dividends, takeovers, etc.), and strong form tests (if investor group monopolistic access to any information that is relevant). In particular, an efficient market generates categories of events that individually suggest that prices over-react to information (Fama, 1998: 284). Thus, there is overreaction and underreaction.	Most finance scholars have been tested this theory on a large sample that relates to one economy or more than two economies. In fact, previous studies suggest that finance theories must be tested on a large sample that are associated with one corporate event announcement, for instance, merger, acquisition, takeover, and buyback, among others. Hence, we predict that 'market efficiency theory' could be proved in this case, for Vodafone Group Plc. However, one can examine long-time delayed transactions (like this case) with respect to shareholders abnormal returns. Accordingly, it could be tested whether this theory could satisfy the outcome while comparing with other announcements, for example, deals that have not been delayed. Therefore, one hypothesis could be developed – does a delayed and not-delayed CB-M&A announcement produce similar shareholders earnings in the given economic setting.

Notes:
[a] As cited In Morgan and Katsikeas (1997: 70).
[b] As cited In Whitelock (2002). In others view, the propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country (Morgan and Katsikeas, 1997: 70).
[c] See, for instance, commentary articles on Penrose's contribution to the resource-based view of strategic management (Rugman and Verbeke, 2002; Kor and Mahoney, 2004).
[d] Indeed, it has originally documented and approved in economics and contract law, and thereafter studied in different disciplines, for instance, corporate finance. Also, see Stigler (1961) for relevant findings.
[e] As cited in Nicholson and Kiel (2007).
[f] Also, refer to the following studies for additional knowledge: internalization theory (Rugman, 1980a, 1980b, 1986; Hennart, 1982, 1986; Morck and Yeung, 1992; Kogut and Zander, 1993); liability of foreignness (Calhoun, 2002; Hennart et al., 2002; Luo and Mezias, 2002; Mezias, 2002; Zaheer, 2002); institutional theory (Zucker, 1987; Oliver, 1991; Scott, 1995; Meyer and Peng, 2005; Peng et al., 2008; Riaz, 2009); theory of transaction cost economics (Williamson, 1985, 1995; Hennart, 1991). On the other hand, one can study – reviews on internationalization process of firms (Andersen, 1993, 1997; Rugman, 2002); and organizational legitimacy in multi-nationalization (Kostova and Zaheer, 1999). However, for a comprehensive text on multinationals, one can refer to Hennart (1982), and Prahalad and Doz (1987).
Please, see **Reddy (2015c, 2015d)**, and **Reddy et al. (2014a)** for improved and revised discussions with meaningful and careful explanations.

Appendix A. India's M&A regulatory framework

In this appendix, we outline different authorities and their related acts/provisions that are attached with merger, acquisition, combination, amalgamation, or takeover activities within the Indian economic system. For instance, the important acts like (a) Companies Act, 1956; (b) Competition Act, 2002; (c) SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997; and (d) Income Tax Act, 1961.

(a) Companies Act, 1956

The existing Companies Act, 1956 was formally enacted by the Parliament. It is one of the important M&A laws, which deals with the procedural aspects of mergers or amalgamations. By contrast, this act does not define what is merger or acquisition. Hence, it has suggested 'three terms' related to corporate inorganic strategies under Sections 390-394 in Chapter V of the act; the terms like "compromise", "arrangement", and "reconstruction". In fact, it uses the term "amalgamation" without defining it clearly (see Ray, 2010). In other words, Section 390(a) indicates "no company involved in an amalgamation likely to be financially unsound or under winding up setting. In particular, the Companies (Court) Rules 1959, exhibits various provisions that should be taken care while processing amalgamations through courts. Indeed, many deals are common and uncommon; however, they are being court-driven mergers (Ray, 2010, p. 676). On the other hand, it does not deal when a merger transaction involves 'sick industrial company' as acquirer or target. In 2005, J.J. Irani Committee has recommended some provisions to improve the act, and to help local corporates for achieving their long-term strategies. In its Grant Thornton and ASSOCHAM Report (2012), mention that the Companies (New) Bill, 2011 is enacted keeping in view of the internationalization of local companies.

Notes: See Sections 391(a), 394(2) and 396 for basic definitions related to amalgamations or mergers (Ray, 2010, p. 682).

(b) Competition Act, 2002

The act aims to regulate various forms of business restructuring forms like mergers, alliances, product acquisitions, etc. Chapter II's Sections 5 and 6 of the act deal such business transactions. For example, Section 6 indicates that "no person or enterprise shall enter into a combination that cause or is likely to cause an appreciable adverse effect on competition within the relevant market in India and such a combination shall be void" (see Jain, 2012; Ray, 2010). Prior to this act, the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 had governed such monopoly and competition-related issues. In Jain (2012), the author states that the major issues of the MRTP act was that it had not been accommodated any express provision for the application on anti-competitive conduct outside India (p. 116). The MRTP act has included the Section 23, stating that "companies should concern the government for approval of possible mergers; positively, this section has removed in successive reforms that mentioning pre-merger inspection no longer is being required" (Agarwal and Bhattacharjea, 2006, p. 49).

In subsequent amendments, the Competition Bill was introduced in the Parliament in 2002 for replacing the MRTP act, and then Competition Act has become a regulation in 2003 under the control of Competition Commission of India (CCI). The act normally passes the ruling in four areas, such as, anti-competitive agreements, abuse of dominance, combination ruling and competition advocacy (see Chatterjee, 2006). For instance, Section 5 of the act provides, what is combination; hence it is not distinctly defined whether a foreign entity interest comes under the combination, thus states that 'the act is applicable in all combinations'. On the other hand, Section 29 explains, "CCI can initiate investigation while Section 6 is proved (Jain, 2012). After reading the CCI regulations, we understand that the act is well written refers to the anti-competitive measures, and the powers of authority and supervision, but it has utterly been failed to explain any term or definition clearly, and interpretative nature, as well. It is as simple to pose a counterpoint "when the given country has become liberalized in 1991 or deregulated the restricted polices for economic growth, it is necessary to revise and include various provisions related to both inbound and outbound deals, or adopt some provisions from advanced countries like European merger rulings, American merger regulations, and British combination laws. More sadly, neither the act has amended cleverly nor has the act adopted international guidelines. However, the new guidelines passed by CCI after 2007 could affect the M&A trend directly or indirectly. For example, the time limit for the CCI initial review is reduced from 210 days to 180 days whereas the time limit for passing a judgment retained at 210 days (see Grant Thornton and ASSOCHAM Report, 2012).

(c) SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997

This act is one of influential and straightforward regulations for takeovers and substantial acquisition of shares. It is formally called as "Takeover Code". Prior to this enactment, Clauses 40A and 40B under listing agreement with SEBI usually work for takeover activities. Following the reforms, SEBI controls various takeover deals by the approved law "SEBI (SAS&T) Regulations, 1994", which is established under Section 30 of the SEBI Act, 1992 (Ray, 2010). In due course of time, it has appointed a committee headed by the Justice P.N. Bhagawati to review the existing norms prescribed in the act. In 1996, it has approved the recommendations of the committee, and then the act has become 'SEBI (SAS&T) Regulations, 1997', which is (now) a standard code for takeovers. More recently, SEBI further appointed a committee in 2009, headed by the C. Achuthan to study and suggest new proposals for improving the 1997 Takeover Code. In a sequence, the committee has submitted a draft report in 2010, and thereafter the New Takeover Code 2011 has replaced the existing 2007 code (see Ray, 2010; Reddy et al., 2011). In the recent budget under new Finance Bill 2012, SEBI has indicated that the threshold limit would rise from 15% to 25%, and the open offer size (after 25% trigger) may increase to 26% from the current book guideline 20%. In fact, it is proposed to remove non-compete fees, suggesting that basic objective of the code is to provide equitable treatment to all shareholders (see Grant Thornton and ASSOCHAM Report, 2012). By contrast, Ray (2010) argues that the term 'Takeover' has not been defined but the term envisages the concept of an acquirer taking over the control or management of the target

firm through acquiring substantial acquisition of shares or voting rights. However, SEBI has no role to play in the current case (Vodafone-Hutchison deal), because no matter is connected with open offers, takeovers or substantial acquisition of shares.

(d) Income Tax Act, 1961

Most macroeconomic theories suggest that taxes are important revenue for government to perform various administration activities, and to implement diverse economic policies as well as bear those associated costs for a social good (e.g., Ezeoha and Ogamba, 2010). Therefore, a country needs an effective authority to carry out such activities. In the Indian institutional environment, the tax authorities under supervision of the Department of Revenue normally administer the rules, regulations, incentives and tax holidays prescribed in this act. Indeed, it provides tax incentives for amalgamations, merger of banking firms, demerger of a company and slump sale. In particular, Section 2(1B) of the act states, "amalgamation means the combination of one or more companies with existing company, or the merger of two or more companies to form a new company" (Ray, 2010). According to provisions mentioned in the act, the tax authorities have right to impose capital gains tax under transfer of asset in and out of India. For example, the term 'transfer' states, "if merger, amalgamation, demerger or any sort of restructuring results in transfer of capital asset, it would lead to a taxable event". In Singhania and Dastaru (2012), the authors point out that some guidelines prescribed in the act need to be clarified intricately to ascertain some lawful safeguards. In the recent Finance Bill 2012, the General Anti-Avoidance Regulations (GAAR) is introduced to control hostile tax avoidance doings, and to take appropriate action in such cases. Hence, GAAR provisions likely to impact foreign deals, or investments and private equity funds, and domestic transactions, as well (see Grant Thornton and ASSOCHAM Report, 2012).

In sum, most acts have amended through Finance Act, 2006 and (now) the Finance Bill 2012.

Notes:
Also, refer to Machiraju (2007) for Indian merger guidelines and procedure associated with different levels of jurisdictions.
Please, see **Reddy (2016)** for revised and improved version of this framework.

Appendix B. 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 (2004, 2007, 2012).

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.

Appendix C. Analysis of the court proceedings and rulings

In this analysis, we present both the BHC and the SC jurisdictions rulings including final judgment [in an order of rule]. To do so, we have borrowed the court(s) rulings from BMR Advisors (2011a, 2011c, 2012), Deloitte (2011), and KPMG (2012), as well. Further, we have been disguised the names and positions of the parties participated in the court(s) rulings.

(a) Rulings of the state-level jurisdiction (Bombay High Court)

The observations presented here with refer to the case when it was ruling at BHC jurisdiction. Firstly, the Union of India had assumed that the Vodafone-Hutch deal has sufficient connection with territory of India. In detail, [on December 3, 2008] the court had permitted tax officials to do inquiry whether the deal is liable for capital gains tax (see Singhania & Dastaru, 2012). In May 2010, the authorities issued an order holding that they had the essential rule to proceed against Vodafone alleging that failure refers to withholding taxes. Then, Vodafone filed a writ petition before the BHC stating that the transaction had absolutely no nexus or connection with the territory of India. However, [on September 8, 2010] BHC had dismissed the appeal by stating that the diverse rights and privileges acquired by the Vodafone's VIH had sufficient bond with India, thus allowed the tax department to proceed further investigation (Deloitte, 2011). Indeed, the BHC had given its decision in two rounds of rulings. The court also argues that several other rights had been transferred besides the CGP share, which if situated within the province of a given country could be taxed, and the consideration should be allocated over such rights (BMR, 2011a).

(b) Rulings of the given country's apex court (Supreme Court of India)

To contend the BHC judgment, Vodafone had appealed the SC. Thereafter, the SC has verified, discussed, and rejuvenated many terms, previous cases, and sections defined or prescribed in the existing Income Tax Act, 1961 and other relevant acts.

	Arguments/Questions by Supreme Court of India	**Answers/Explanations by Vodafone Counsel**
1	The court has asked Vodafone Counsel on "substance theory" and "lifting of corporate veil".	The counsel has given the explanation that there are three categories of structures or schemes can be disregarded under the "substance" over "from" doctrine; thus "One off schemes, Off the shelf, and Corporate structuring with malafide intent" (Deloitte, 2011). In fact, the counsel has been contended strongly that this case falls under the aforesaid 'third' scheme; however, the corporate veil can be pierced only when there is misuse of the corporate structure with malafide intent. Moreover, it has argued that the upstream ownership structure overseas was in place for decades […] the character of a structure could not change with events. In addition, the corporate structure put in place by Hutch to make investments into India are perfectly legitimate […]. Indeed, the FIPB has already been approved the deal" (see BMR, 2011c).
		Notes: In other words, [i] One off schemes explains "to meet the objective of beating the tax system", [ii] Tax avoidance schemes available off the shelf that often are based on circular transactions, which are artificially designed for beating the tax system, and [iii] Corporate structuring with the malafide intent of beating the tax (see Deloitte, 2011).
2	What is the difference between tax havens and offshore financial centers (OFC)?	The counsel has answered 'it is as between opacity and transparency'. Further, it reiterated that Cayman Islands should form part of OFC category, and therefore it does not fall in the tax havens.
3	The court inquires the "transnational structures and horizontal structures"	The counsel has responded that 'look through provisions' could be applied only in horizontal structures. It also contended that a holding company structure could not be disregarded unless the transaction is a sham. In fact, the "vertical transnational structures" are common […] allow exit options to the investors and should be treated differently unlike horizontal structures.
4	In particular, there is a discussion on "shifting of tax jurisdiction and tax avoidance device". In this query, the court asks the counsel on HWL structure and transfer of pricing provisions under Section 92 of the Income Tax Act.	The counsel argued that transfer-pricing provisions essentially deal with shifting of 'income' between jurisdictions. Hence, structuring of business operations to allocate income between jurisdictions may be regarded as a 'device'. With respect to the discussion on tax havens, counsel stated that a main characteristic of tax havens is when the domestic tax laws allow its residents to escape taxes in the country of residence […] were not relevant in the Vodafone structure" (see Deloitte, 2011).
5	There is an argument on "tax evasion". Since, it is one of the best arguments exhibited between the SC and Vodafone Counsel	The counsel further argues that simply (since) a subsidiary has been set up instead of a branch, one could not allege tax evasion (given that the tax rate applicable to a subsidiary is much lower than the tax rate applicable to a branch of a foreign company). In this regard, the court has given an example of a 'liaison office (LO)' set up in India, and questioned counsel whether the tax authorities could make enquiries into the activities of the LO to confirm if it creates a 'permanent establishment' in India? The counsel replied that while in such cases the tax authorities could make an enquiry, in our case any enquiry as

<table>
<tr><td></td><td></td><td>regards the Cayman Islands entity is irrelevant.</td></tr>
<tr><td>6</td><td>The court also discusses about previous SC rulings in Azadi Bachao Andolan case, and then pose questions to counsel regarding the meaning of the term “liable to tax” (see BMR, 2012, Deloitte, 2011).</td><td>The counsel has stated that the benefit of the India-Mauritius tax treaty would be available only if the Mauritian entity was “liable to tax in Mauritius”. It also contended that despite the Supreme Court ruling (which was pronounced in 2003), the tax treaty has not been amended thereafter.</td></tr>
<tr><td>7</td><td>They also converse on scope and applicability of Sections 163 and 195 of the Income Tax Act.</td><td>For instance, the applicability of section 195, which requires ‘any person’ making a payment of a sum chargeable to tax to a non-resident to withhold tax on the same, depends on the “tax presence” of the non-resident payer in India. Certainly, investment by a group company in an Indian company does not create a tax presence of all companies in of that group in India. In one of the discussions, the SC has referred couple of articles in relation to Japan and Taiwan tax laws, both are irrelevant to the counsel contentions (Deloitte, 2011).</td></tr>
<tr><td colspan="3">We disclose various arguments related to different provisions enacted in the Act.
Economic reality theory, Substance vs. Form, Source of income, Control and controlling interest, Situs of the shares, Valuation, Place of jurisdiction, Limitation of benefits (LOB) clause in tax treaties, HWL’s group ownership structure including other holding structures, Central Board of Direct Taxes (CBDT) circular, Validity of tax residency certificate, and Legislation and certainty (BMR, 2011b; Deloitte, 2011).</td></tr>
<tr><td colspan="3">In sum, we present some of the important arguments raised by Vodafone in the SC’s jurisdiction. They are
(a) Hutch had not invested into India through a tax haven, since Cayman Islands is an Organization for Economic Cooperation and Development’s (OECD) compliant jurisdiction. (b) The structure of the Vodafone transaction is not designed for tax avoidance. (c) There is no “look through provisions” in the existing Income Tax Act. Lastly, [in absence of fraud] transfer of control of downstream firms could not be a basis for affirming tax jurisdiction (see Deloitte, 2011).</td></tr>
<tr><td colspan="3">After various hearings, arguments and answers contended by the Vodafone counsel, then SC has arrived at a conclusion on January 12, 2012 (see Deccan Herald, 2012; Economic Times, 2012; Hindu, 2012). Finally, [after five years] SC has given its judgment in favor of VIH stating, “Indian tax authorities have no jurisdiction to levy capital gains tax on Vodafone-Hutchison off-shore deal”. Further, the tax authorities are being directed to refund the amount US$0.5 billion deposited by the Vodafone as part payment towards the demand in early 2011along with interest payment (Singhania & Dastaru, 2012). The reasons behind this landmark decision are presented here, which were outlined by the SC. The SC also stated that genuine strategic tax planning could not be ruled against the book of law. The CGP structure had been operating since 1998, it is not a sham transaction, or a transaction aimed at avoidance of tax (see Hindu, 2012).
“The Vodafone deal was a consolidated transaction, and each right and asset could not be dissected in order to apply section 9 of the Act. The CGP share was located outside India, and therefore government had no jurisdiction to tax the same. Thus, withholding tax provisions would not be triggered in the current case. Similarly, section 163 of the Act provides for taxation on a representative assessee basis, also could not be invoked (Hindu, 2012). Further, there is no extinguishment of property rights in a given country through the transfer of shares between two foreign entities of shares in another foreign entity” (Singhania & Dastaru, 2012).</td></tr>
<tr><td colspan="3">Note: This appendix is direct text citations collected from various sources, available upon request.</td></tr>
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