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Cross-Border Vs. Domestic Acquisitions: Evidence from India

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Research Highlights

- Acquisitions by Indian firms increase post liberalization, from year 2002 to 2010
- Large, young, cash rich, less levered and overvalued firms likely make acquisitions
- Acquisitions more likely by group firms and firms with lower promoter shareholding
- Domestic and cross-border deals by Indian firms likely in competitive industries
- Control for greenfield investments and joint ventures and alliances

Abstract

We examine the domestic and cross-border acquisition decision of Indian firms in the nine-year period from 2002 to 2010, a period following economic liberalization in India. Acquisition activity, both domestic and cross-border increased over the period. We find that larger, younger firms, firms with cash on hand, firms with low leverage, and relatively overvalued firms are more likely to make an acquisition. Such firms also prefer to make a cross-border acquisition compared to a domestic acquisition. Firms with lower levels of promoter (founding shareholder) holdings, larger boards, and belonging to a business group are more likely to make an acquisition, but are indifferent between making domestic and cross-border acquisitions. Industry competition is a significant determinant of acquisition activity with firms in more competitive industries more likely to make an acquisition and more likely to make a cross-border acquisition compared to a domestic acquisition. Our results hold controlling for acquisitions by manufacturing firms, prior acquisition experience, and taking into account alternate growth strategies followed by firms.

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