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The causes and consequences of delayed/abandoned cross-border merger & acquisition transactions

A cross-case analysis in the dynamic industries

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Abstract

Purpose – Drawing attention to the significant number of unsuccessful (abandoned) cross-border merger and acquisition (M&A) transactions in recent years, the purpose of this paper is to analyze three litigated cross-border inbound acquisitions that associated with an emerging economy – India, such as Vodafone-Hutchison and Bharti Airtel-MTN deals in the telecommunications industry, and Vedanta-Cairn India deal in the oil and gas exploration industry. The study intends to explore how do institutional and political environments in the host country affect the completion likelihood of cross-border acquisition negotiations.

Design/methodology/approach – Nested within the interdisciplinary framework, the study adopts a legitimate method in qualitative research, that is, case study method, and performs a unit of analysis and cross-case analysis of sample cases.

Findings – The critical analysis suggests that government officials' erratic nature and ruling political party intervention have detrimental effects on the success of Indian-hosted cross-border deals with higher bid value, listed target firm, cash payment, and stronger government control in the target industry. The findings emerge from the cross-case analysis of sample cases contribute to the Lucas paradox – why does not capital flow from rich to poor countries and interdisciplinary M&A literature on the completion likelihood of international takeovers.

Practical implications – The findings have several implications for multinational managers who typically involve in cross-border negotiations. The causes and consequences of sample cases would help develop economy firms who intend to invest in emerging economies. The study also offers some implications of M&A for telecommunications and extractive industries.

Originality/value – Although a huge amount of extant research investigates why M&A fail to create value to the shareholders during the public announcement and post-merger stages, there is a significant dearth of research on the causes and consequences of delayed or abandoned national and international deals. The paper fills this knowledge gap by discussing an in-depth cross-case analysis of Indian-hosted cross-border acquisitions.

Keywords Emerging economies, Institutional theory, Foreign direct investment, Cross-border mergers and acquisitions, Internationalization, Foreign market-entry mode

Paper type Research paper

1. Introduction

1.1 Contemporary issues and knowledge gaps

A well-designed policy approach of liberalization and globalization initiatives of international monitoring organizations has a high impact on economic performance and dynamic industries in developing and transition economies. Specially, the market for corporate control activities such as mergers and acquisitions (M&A) at the global

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level has seen a significant change both in frequency of deals and in value of transactions all over the world, especially after 2000 (UNCTAD, 2000). For instance, number (value) of cross-border M&A transactions has markedly increased by 206 percent (875 percent) from 3,460 (US$98.38 billion) in 1990 to 10,576 (US$959.34 billion) in 2000, then risen to 12,199 (US$1,045 billion) in 2007, after dropped to 8,624 (US$348.75 billion) in 2013. In case of dynamic industries, we observe a similar trend in sample sectors, namely, "mining, quarrying and petroleum, and information and communication." For mining, quarrying, and petroleum sector, number (value) of cross-border inbound M&A deals has significantly increased from 204 (US$7 billion) in 1990 to 1,026 (US$147.64 billion) in 2011, then turned down to 625 (US$60 billion) in 2013. For instance, in the crude petroleum and natural gas segment, Petronas Carigali, a Canadian company acquired Progress Energy Resources for US$5.4 billion; Chinese CNOOC bought 100 percent shareholding rights in Nexen for US$19 billion; and OMV AG, an Austrian company acquired 19 percent of ownership stake in Norway-based Statoil ASA-Gullfaks Field for US$3.2 billion. For information and communication sector, number (value) of cross-border inbound M&A deals has appreciably increased from 205 (US$11 billion) in 1990 to 1,806 (US$414 billion) in 2000, thereafter it has seen the rise and decline, and reached to 734 (US$31 billion) in 2013. For example, in the telephone communications segment, Japanese SoftBank bought 78 percent of ownership stake in the US-based Sprint Nextel for US$21.6 billion (UNCTAD, 2013, 2014).

A close look at the market statistics, coupled with accessible literature on cross-border M&A transactions, highlights two interesting observations. First, international deals in oil and gas exploration and telecommunications industries are more likely to be high-valuation transactions. At the same time, these industries are largely controlled by government-owned enterprises in emerging economies such as China and India (Bruton *et al.*, 2015; Grossi *et al.*, 2015; Peng *et al.*, 2016). Since governments have more controlling rights on market intermediation in capital-intensive industries such as oil and gas, high-valuation deals tend to attract higher levels of government intervention and complicated administrative procedures. For example, the deal between Chinese CNOOC and the American Unocal abandoned due to political and regulatory issues (Wan and Wong, 2009). Likewise, Tingley *et al.* (2015) report 12 percent of Chinese deals in the USA met with political opposition. Thus, institutional environment of the host country plays a major role in the completion likelihood of cross-border acquisition deals. Second, we find cross-border transactions involving emerging economies often delay, litigate, or attract government and political influence. For instance, Zhang *et al.* (2011) notice 32 percent (210,183) of acquisition attempts abandoned during the period 1982-2009. Even more interestingly, in case of outbound acquisitions by firms from emerging economies, 20 percent of Brazilian deals abandoned during the period 1992-2012, Russia 21 percent, India 27 percent, China 35 percent, South Africa 19 percent, Indonesia 37 percent, Turkey 27 percent, and Mexico 14 percent (Popli and Kumar, 2015).

In strategy, international business and finance literatures, several researchers suggest that not only deal- and firm-specific factors and home-host country bilateral trade relations, but also host-country specific attributes such as quality of institutional and regulatory framework, financial reporting and investor protection, macroeconomic indicators, financial markets development, border tax policies, government and bureaucrat's behavior, political influence, geographic distance and cultural factors have different effects on the completion likelihood of cross-border M&A deals (Alguacil *et al.*, 2011; Blonigen, 1997; Bris and Cabolis, 2008; di Giovanni, 2005; Erel *et al.*, 2012; Ezeoha and Ogamba, 2010;

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Ferreira *et al.*, 2014a; Hebous *et al.*, 2011; Huizinga and Voget, 2009; Hur *et al.*, 2011; Lahiri *et al.*, 2014; Pablo, 2009; Patel, 2015; Rossi and Volpin, 2004; Scholes and Wolfson, 1990; Schöllhammer and Nigh, 1984, 1986; Uddin and Boateng, 2011). In recent years, some studies have emphasized on economic nationalism and institutional role in approving cross-border deals like direct investment, mergers, acquisitions, joint ventures, and private equity proposals, particularly in emerging economies (Ferreira *et al.*, 2014b; Reis *et al.*, 2013; Serdar Dinc and Erel, 2013; Zhang and He, 2014).

However, although scholars have examined the cross-border M&A stream using different theoretical lenses over the past two decades, they have overlooked the effects of institutional environment, government intervention, and political influence in the target country on the completion likelihood of cross-border M&A transactions (Contractor *et al.*, 2014; Lebedev *et al.*, 2015; Singh, 2012; Stevens *et al.*, 2016; Tingley *et al.*, 2015). In particular, emerging economies like Brazil, Russia, India, China, and South Africa provide a unique setting for various reasons include testing extant theory and building a new theory (Aureli, 2015; Hoskisson *et al.*, 2000; Marquis and Raynard, 2015; Peng, 2012; Peng *et al.*, 2008; Reddy, 2015a).

1.2 Research question

Motivated by the aforementioned contextual and theoretical discussions, we determine to analyze three litigated cross-border acquisitions that hosted by Asian emerging economy – India, such as Vodafone-Hutchison and Bharti Airtel-MTN deals in the telecommunications sector, and Vedanta-Cairn India deal in the oil and gas exploration industry. Drawing upon Lucas's (1990) highly debated question in the international economics literature – why does not capital flow from rich to poor countries, this paper answers the following research questions:

RQ1. How does host country's weak financial markets and institutional framework (e.g. open offers program, dual listing, and international taxation) affects the completion likelihood of international acquisitions?

RQ2. Whether target country's regulatory authorities erratic behavior and ruling political party intervention have a negative impact on the success of foreign M&A?

These unit-level questions contribute to the central argument of the thesis – why do cross-border M&A deals that flow to emerging economies become delay or abandoned?

To do so, we adopt qualitative case study method both for deep understanding of deals happening in emerging economies and for adding new knowledge to the existing literature on cross-border M&A completion. There are two strong reasons behind the adoption of case study approach. First, accessible survey and industry-based studies have suggested the dearth of qualitative case research in M&A literature (Capron and Mitchell, 1997; Haleblian *et al.*, 2009; Majumdar *et al.*, 2012). For example, Haleblian *et al.* (2009) find that only 3 percent articles have used case method out of 167 papers published during the period 1992-2007. A bibliometric analysis of the state of case method in M&A research by Reddy (2015b) reports that 93 journal articles have adopted case study research, in which 66 (27) articles examined developed (emerging) economies, 44 (46) articles analyzed single case (multiple cases), 56 (25) articles collected data from interview and archival sources (archival sources), and 50 percent of studies performed case or cross-case analysis. Second, several social sciences and management

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scholars argue that although case research is limited to researcher quality, robustness of results and generalization of findings, it is still an important mechanism to investigate the phenomenon, contribute to existing theories, and develop a new theory (Stake, 1994; Yin, 2003). In our research contexts, this method may offer better support to perform a more in-depth analysis of underexplored and contemporary cases such as abandoned, delayed, or litigated international takeover deals. Thus, the unit of analysis and cross-case analysis of sample cases would benefit not only researchers in management but also help managers participating in overseas deals, particularly refer to dynamic industries such as oil and gas exploration, mining, pharmaceuticals, and finance and banking. In so doing, the paper contributes to the completion likelihood of publicly announced cross-border M&A transactions literature, on the one hand, and Lucas paradox and institutional theory, on the other. We discuss our contributions in more detail toward the end of the paper.

The remainder of this paper is organized as follows. Section 2 presents theoretical protocol and review of the literature addressing cross-border M&A negotiations. Section 3 describes research design that refers to multi-case approach, selection criteria, and characteristics of sample cases. Section 4 discusses unit-level analysis of sample cases. Section 5 illustrates a cross-case analysis of sample units. Section 6 discusses contributions, implications for telecommunications, and extractive industries, and limitations and future research directions. Finally, Section 7 concludes.

2. Theoretical framework and relevant literature

2.1 Theoretical protocol

A merger/acquisition occurs between two local firms is referred as a domestic merger, because the transaction is closed within the territory of the country. Conversely, a merger/acquisition occurs outside the territory of the country is defined as an offshore deal (Hitt and Pisano, 2003). Comparing with local merger transactions, cross-border deals are usually high-valuation negotiations and receive higher levels of regulatory scrutiny as well as heightened media attention (Lebedev *et al.*, 2015). Given that cross-border capital flows affect foreign exchange reserves of the home country and fiscal income of the host country (UNCTAD, 2000), it is important to analyze the causes and consequences of delayed and abandoned cross-border acquisition transactions involving emerging economics such as India. Although the central research thesis answers Lucas paradox and develops theoretical constructs rooted in Reddy's (2015a) Test-Tube case study research design, it leverages several theories propounded in interdisciplinary literature such as industrial organization, economics, corporate finance, strategy, international business, and sociology. According to Reddy's (2015a) thesis design, this paper is the second step of Test-Tube design, that is, unit-level case analysis and cross-analysis. In short, the first step discusses case development using archival sources, and third step suggests testing extant theory and developing new theory. In the third step, Reddy *et al.* (2015b) tests 17 management theories, and proposes a new theory and develops some theoretical propositions – Farmers Fox Theory. In brief, theories such as the theory of foreign direct investment, market imperfections theory, transaction cost economics, internalization theory, OLI paradigm, Uppsala theory of internationalization, deep-pockets lens, resource-based view, resource dependence theory, competitive advantage theory, organizational learning and learning-by-doing, bargaining power theory, information asymmetry theory, agency theory, institutional theory, liability of foreignness, and market efficiency

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theory (see for a comprehensive review of theories: Reddy, 2014). Because our intention is not to replicate those discussions (Reddy, 2014; Reddy *et al.*, 2015b), we omit the theoretical framework in this paper. Hence, we support case analysis and discussions by referring to the most relevant previous research on M&A negotiation process.

2.2 Related cross-border M&A literature

In recent years, the success or failure of an international acquisition has attracted a significant attention of scholars in strategy, international business, and corporate finance. Thus, success or failure of the deal means "completion or incompletion of the publicly announced acquisition," "agreement or disagreement of the deal." To the best of our knowledge on M&A stream, there is a dearth of research on the completion likelihood of M&A transactions across the world economy for reasons, including the causes of abandoned negotiations, the determinants of failed takeovers, stock performance around negotiation process, and the roles of top-level management team in delayed or unsuccessful deals (except some recent studies, e.g. Caiazza and Pozzolo, 2016; Ngo and Susnjara, 2016; Muehlfeld *et al.*, 2012). Although a large amount of research has published on why M&A fail to create value to shareholders (announcement returns) and fail to improve accounting performance (post-merger stage) in corporate finance and strategy literatures (Asquith, 1983; Chang and Suk, 1998; De Bernardis and Giustiniano, 2015; McCann and Ackrill, 2015; Munjal and Pereira, 2015; also see reviews by Ferreira *et al.*, 2014b; Haleblian *et al.*, 2009; Lebedev *et al.*, 2015; Marks and Mirvis, 2011; Martynova and Renneboog, 2008; Reddy, 2014; Shimizu *et al.*, 2004; Yaghoubi *et al.*, 2016), there are hardly a few empirical/survey studies that analyze abandoned deals or completion likelihood of M&A negotiations (Dikova *et al.*, 2010; Graebner *et al.*, 2010; Muehlfeld *et al.*, 2007, 2012; Ngo and Susnjara, 2016; Roos and Postma, 2016; Zhang *et al.*, 2011). In fact, some recent literature-review papers have confirmed the scant research in this particular stream – negotiation process (Ahammad *et al.*, 2016; Caiazza and Volpe, 2015; Friedman *et al.*, 2015; Lee *et al.*, 2014). To this end, we present a brief review of the related literature.

Broadly speaking, deal characteristics, firm-specific variables, industry benchmarks and regulations, and country-level determinants have different effects on the completion likelihood of domestic and overseas deals. According to literature, most acquisitions fail to create a synergistic value to the acquiring firm shareholders in both *ex-ante* and *ex-post* stages (Bansal, 2015; Galpin and Herndon, 2008; Haleblian *et al.*, 2009). For instance, 80 percent of M&A deals failed to create value to the shareholders, in which 53 percent of transactions really destroyed the shareholder value (cf. Marks and Mirvis, 2011, p. 162).

Acquisition agreements often fail due to lack of careful evaluation of the target firm, paying a high premium for target, complex deal structure, newness of bidding firm managers, uncertain prospects of the combined entity, and acquiring targets similar to competitors (Bargeron *et al.*, 2014; Calandro, 2011; Epstein, 2005). In some instances, failures happen because of communication bottlenecks (Grantham, 2007), and uncheck operational due diligence issues (Morrison *et al.*, 2008). Specially, Zhang *et al.* (2011, p. 226) suggest that "target management resistance to acquisition bids, managerial ownership, target size, deal structure […] and the level of bid premiums offered in takeovers and ownership structure determine the end results of acquisition attempts." A recent empirical study by Tingley *et al.* (2015) find that a significant number of Chinese cross-border acquisition transactions in the USA severely delayed and abandoned due to complicated regulatory procedures driven by opposition from the

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ruling political party. These observations indicate the effects of regulatory framework and political intervention in the host country on the success of international acquisitions in recent years, especially aftermath of the global financial crisis.

We find three interesting studies that examine a failed international telecom merger in the Scandinavian region (Fang *et al.*, 2004; Meyer and Altenborg, 2007, 2008). They analyze the failed merger between Telia in Sweden and Telenor in Norway. The merger proposal called-off after 11 months of the public announcement. They find: first, disintegrating factors (e.g. distributive equality, operationalization of the equality principle, integrative equality, and a mix of equality) were strong, because the merger involving two state-owned firms of unequal size; second, strategies adopted by merging firms found to be incompatible or unsuited, in which "it is not feasible for the merged corporation to choose both strategies simultaneously" (Meyer and Altenborg, 2008, p. 510); third, merging firms acquisition strategies were influenced by pre-merger strategies; and fourth, merger also intervened by both countries' national political behavior and governance structures. Fang *et al.* (2004, pp. 591-592) mention three important reasons behind the failure: lack of personal trust between merging parties in the middle and later phase of deal making, both parties were wrong about estimating potential complexities and cultural differences, and both countries national relations illustrated as "big brother vs little brother" syndrome. Also, it is highlighted that "historical sentiments, feelings and emotions, if not handled well, can cause fatal damage to cross-cultural business ventures" (Fang *et al.*, 2004, p. 573). In addition, we also notice an interesting oil deal among developed and developing countries in 2005, that is, abandoned deal between CNOOC in China and Unocal in the USA (Wan and Wong, 2009). The authors suggest that takeover negotiations were abandoned due to political intervention. The takeover announcement also affected other companies in the US-oil industry, in which they notice a significant decline in market value of non-merging oil companies. Thus, stock prices of non-merging companies fell "in anticipation of a lower future takeover probability and expected takeover premium" (Wan and Wong, 2009, p. 454). In the similar context, Tingley *et al.* (2015) show that several Chinese deals in the USA called-off due to higher levels of opposition from the ruling political party and complicated merger procedures.

With regard to announcement returns, Neuhauser *et al.* (2011) analyze stock performance of the target firm involving failed acquisition attempts (merger cancellations and three types of takeover failures: greenmail, simple withdraw, and share repurchase) for a sample of 530 transactions during the period 1978-2004. They find positive abnormal returns on acquisition announcement, but negative returns on both "during the interim period and failure announcement." Target firm shareholders received significant higher abnormal returns around the acquisition announcement that later canceled due to voluntary withdrawal or share repurchases compared to acquisition attempts that later failed because of a canceled merger or greenmail. Interestingly, canceled takeover attempts offered positive returns to the target shareholders. Bargeron *et al.* (2014) examine bidder returns around disagreement over mergers for 623 transactions between 1996 and 2006. They reveal an inverse relation between bidder returns and information uncertainty regarding deal disagreement, while notice a significant relation among announcement returns and chances of deal completion when such returns are more informative to bidders. In case of successful acquisitions, Duncan and Mtar (2006) analyze the international deal between FirstGroup of UK and Ryder of the USA in the transport business, suggesting that prior international acquisition experience of acquiring firm has a positive relationship with subsequent acquisition success. Hence,

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higher post-merger value is more likely expected when acquiring firm considers strategic fit, cultural fit, and integration aspects.

For M&A in telecommunications industry, accessible literature suggests that consolidation strategies such as acquisitions fail to produce significant returns to acquirer shareholders around the announcement, and have an insignificant effect on post-merger financial performance (Capron and Mitchell, 1997; Majumdar *et al.*, 2012; Park *et al.*, 2002; Trillas, 2002; Wilcox *et al.*, 2001). For M&A in oil and gas industry, a few studies examine antecedents, motives, valuation effects, and announcement returns using case materials and archival sources, suggesting that although upstream and downstream deals have significant positive effects on bidder's market valuation, overhead cost-control and post-merger accounting performance, the industry is largely influenced by global crude oil price shocks and the changing dynamics of geopolitical trade relations. Albeit it is suggested that unrelated diversification oil deals produce negative returns to bidder shareholders around the announcement (Gupta, 2016; Ng and Cox, 2016; Ng and Donker, 2013; Weston *et al.*, 1999).

In sum, the completion likelihood of cross-border acquisition transaction between target and bidder is not only influenced by firm- and deal-specific factors, but also determined by national characteristics such as economic, regulatory, political, and cultural environment. Notwithstanding, experience of acquiring firm managers, involvement of senior managers (Epstein, 2005), prior deal experience, and association with host country government through a local player have positive impacts on the success of foreign acquisitions (Abdi and Aulakh, 2012; Dikova *et al.*, 2010; Muehlfeld *et al.*, 2012).

3. Research design: a multi-case study

Case study method is a legitimate tool in qualitative research, which aims to perform an in-depth analysis on a single unit or multiple units. Qualitative researchers suggest that case study method recommends two directions, namely, to answer "why and how" questions, and to build new theory from the substantial evidences (Stake, 1994; Yin, 2003). For instance, recent studies have used the case research method for various tasks and thereby blended the analysis using not only primary data but also linking with the secondary data (media texts) (e.g. Babić *et al.*, 2014; Child and Tsai, 2005; Geppert *et al.*, 2013; Halsall, 2008; Kim and Lu, 2013; Riad and Vaara, 2011; Serdar Dinc and Erel, 2013; Reddy, 2015b; Tienari *et al.*, 2003; Vandenberghe, 2011; Wan, 2014; Wan and Wong, 2009). Some studies discuss case analysis based on published cases (Conklin, 2005). Specially, Ambrosini *et al.* (2010) propose a framework of using teaching case studies in management research.

We thus adopt multi-case study approach to perform unit-level analysis and cross-case analysis of sample cases. Scholars suggest that relevance rather than representativeness is the criterion for case selection in qualitative case research settings (Stake, 1994; Yin, 2003). Following Reddy's (2015a) Test-Tube case research design, we choose three cases based on the following selection criteria. In brief, Test-Tube typology consists of 11 guidelines, namely, case development, case selection, relatedness and pattern matching, case analysis, cross-case analysis, theoretical constructs, pre-testing and development, adjusting theoretical constructs, theory testing, building theory and testable propositions, and suggesting strategic swap model. A case should meet all six rules, to be included in our sample units. First, the deal or transaction should be a cross-border inbound acquisition, in which acquiring firm has shown interest to merge with an Indian local company, or to buy at least 25 percent of equity stake in the Indian local company. Second, both acquiring firm and

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target entity should be publicly traded stocks where the registered office is located, and the stocks should have a fair-trading for at least two years before the acquisition announcement. Third, neither acquirer nor target has a dispute (e.g. tax evasion) with the Indian tax department for at least three years before the acquisition announcement. Fourth, acquiring firm's representative country must have friendly relations with India for at least ten years before the acquisition announcement. Fifth, the deal or transaction value should be US$5 billion or more, and the method of payment can be cash, stock, or a mixed arrangement. Finally, yet importantly, the announced deal should be a long-time delayed, broken, and/or litigated transaction because of forced regulatory or political intervention. The issue can be a dual listing, corporate ownership, open offers, deal structure (e.g. foreign exchange issue), and international taxation.

3.1 Unit of analysis and characteristics of sample cases

The number of sample cases in our case research is three. The basic unit of analysis aims to capture the causes behind "delayed and unsuccessful cross-border acquisitions in emerging economies setting." Thus, cross-border inbound cases connected to host country-India are: first, Vodafone acquisition of Hutchison for US$11.2 billion in 2007 (Reddy *et al.*, 2014); second, abandoned cross-border merger between Bharti Airtel and MTN for US$23 billion in 2008-2009 (Reddy *et al.*, 2012); and third, Vedanta Resources acquisition of Cairn India for US$8.67 billion in 2010-2011 (Nangia *et al.*, 2011). In short, two cases represent the telecommunications industry and the remaining case comes from the oil and gas exploration industry. To note, all cases are part of the doctoral research and developed using archival sources such as annual reports, media texts, and regulatory updates (see "case study protocol" Reddy *et al.*, 2015b).

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

4. Analysis of sample cases

Case analysis is an important step in case research method across the interdisciplinary literature (Yin, 2003). We discuss each sample case for reasons, including the strategic motives of the deal, determinants of the transaction, and stock price reaction around acquisition announcement. In particular, we try to blend cross-border M&A literature with case findings, and improve the understanding and knowledge of international deals involving emerging economies.

4.1 Analysis of Vodafone-Hutchison case

We analyze the case from two basic questions – "why" and "how" – in the given research environment. When alternative forms of foreign investment are available, why did Vodafone intend to acquire Hutchison equity stake in CGP Investments as an entry

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into the Indian market. It does not simply the motive of acquisition, but it attempts to look up what other strategic financial synergies.

4.1.1 Strategic motives of the acquisition. In international business and strategic management literatures, researchers have highlighted the progress and potential of emerging economies, and opportunities for theory building research (Hoskisson *et al.*, 2000). In this vein, India is one of the Asian continental countries, which is a constituent of the emerging markets group. Indian market offers a great deal of market opportunities and invites multinational companies to invest in the country for both economic progress and financial integration with the world economy. Two notable incidents support this, first, the 1991 new economic policy reforms, and second the contribution of the service sector to the economy, largely information technology industry (Reddy *et al.*, 2011, 2015a). In particular, the market that has a significant potential and higher growth in the service sector is telecom business (at the time of Vodafone acquisition; also see the Appendix, for telecom market indicators). Regarding investment channel, a foreign firm can invest in India through direct investment (including acquisitions) or automatic investment route (a central bank's permission is required).

Vodafone is one of the fastest growing telecom companies in all European markets, which has a great source of networks and alliances with other telecom companies. In fact, Hutchison Whampoa and Vodafone are large players in this industry and both are "flagship firms," in which they usually co-ordinate investment and operational activities of other companies within their business network (Whalley, 2004). Importantly, Vodafone has prior acquisition experience in the international telecom market. For instance, the takeover of German telecom "Mannesmann" by Vodafone in 1999 had also faced serious issues relating to the valuation of shares and premium. This "also became the subject of political debate and attempts at political intervention in Germany" (Halsall, 2008, p. 788). Thus, Vodafone's portfolio and strategic choices gives in an impression as to offer services across the world and become a global giant in the telecom market.

Moreover, Vodafone is the most technologically advanced company compared to domestic rivals such as Bharti Airtel, Reliance, BSNL, and Idea. While Hutchison Whampoa Limited (HWL) almost retained their original investment and aimed to grasp the infrastructure projects (e.g. shipping) in the global market. With this, one might agree that HWL aimed to build their business value by making more investments in the global infrastructure projects. At the same time, Vodafone wish to enter the Indian market. Based on their previous alliance experience in the telecom business in European markets and following India's border-crossing investment and taxation laws, Vodafone viewed that acquiring HWL equity stake in CGP Investments is likely to be a better option while not losing the corporate gains tax on cash acquisition. Overall, strategic motives of Vodafone acquisition of Hutchison's equity stake include enter into the world's second largest untapped telecom market of India, increase market share by offering international services, gain competitive advantage over domestic rivals, and expand into other Eurasian untapped markets through developing Indian-entity as a wholly owned subsidiary. As a result, Vodafone's market value and brand value may improve significantly over the period (Figure 1).

However, we argue that "saving or escaping capital gains tax" is not the motive of entry into India when compared with the Vodafone's prior high-value acquisition of Mannesmann. One may infer that Vodafone obtained tax advantage due to their

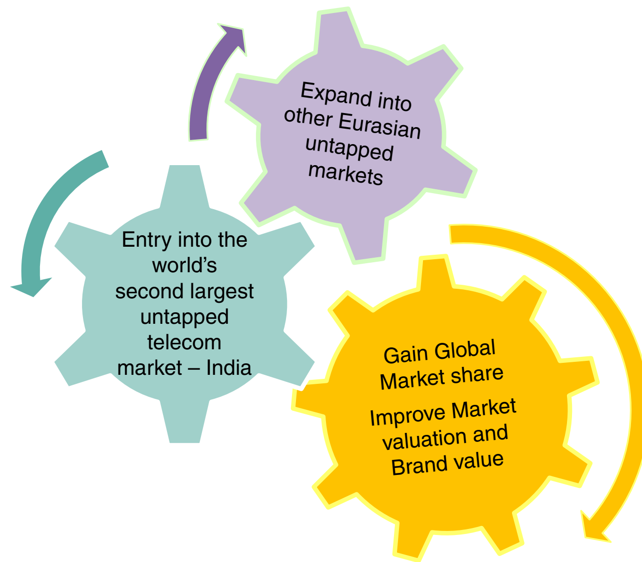

Figure 1.
Strategic motives of Vodafone acquisition of Hutchison's equity stake

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(or, their advisors) critical analysis of Indian overseas investment laws and Indian-based legal advisors, of course, the chief executive officer is an Indian origin. Further, Vodafone's previous experience in overseas deal making really helped the company officials to overcome entry-mode barriers in developing countries and reach the conclusion of the deal. We would support the latter streak to organizational learning theory: learning-by-doing and learning from prior acquisition experience (Collins *et al.*, 2009; Francis *et al.*, 2014; Lin *et al.*, 2009). For instance, Collins *et al.* (2009), and Meschi and Métais (2013) find that previous acquisition experience has a positive effect on the completion likelihood of overseas deals and such experience usually influenced by company's overseas lookup/establishment.

4.1.2 Reasons behind the tax-litigated deal. This section is an extension of our earlier discussions (Reddy *et al.*, 2014, pp. 60-61). At the outset, it is important to note that multinational companies, because of their size and international connections, have certain flexibility for escaping regulations imposed in one country (Hymer, 1970, p. 447). For example, international taxation has been a significant determinant in cross-border mergers such as Daimler of Germany with Chrysler of the USA in 1998. It is because "the exemption from taxation by Germany of dividend income from abroad in contrast to the US system of worldwide taxation was one of the main reasons for locating the parent firm of Daimler-Chrysler in Germany" (Huizinga and Voget, 2009, pp. 1217-1218).

We therefore discuss major reasons behind the tax-litigated deal (Figure 2). First, since a cross-border acquisition occurs between two countries, it is worth to explore if the acquisition is a direct (withholding tax) or indirect (no tax liability) transaction. It is because direct international investment has a direct effect on the balance of payments of home and target countries (UNCTAD, 2000). At the same time, target country government usually levies capital gains tax on the transfer of ownership rights when a transaction happens within the territory of the target country. However, target country government does not hold any defensive rights to levy tax on the acquisition when a

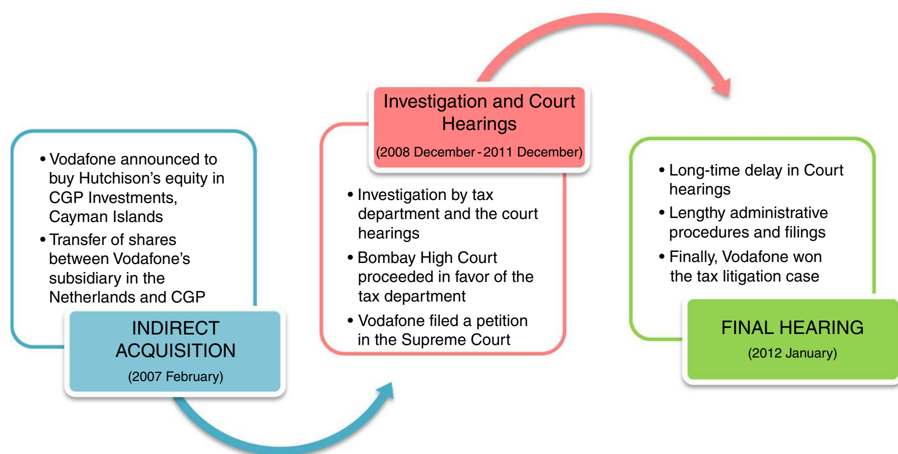

Figure 2. Reasons behind the tax-litigated Vodafone-Hutchison deal

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transaction happens outside the territory of the target country (Reddy *et al.*, 2014). In the context, one may pose a question, how an acquisition does occurs and provides ownership and controlling rights to acquirer. Yes, there are tax haven countries in the world market for corporate control, in which they offer numerous tax and legal benefits to multinational companies (Peng and Parente, 2012). In the case, since Cayman Islands is a tax haven country and has bilateral tax treaties with several countries including India, Vodafone has acquired Hutchison's 100 percent equity stake in Cayman Islands based CGP Investments through its subsidiary registered in the Netherlands. While CGP Investments has a direct ownership stake in the Indian-registered joint venture – Hutchison-Essar Limited. Thus, this transaction is an indirect acquisition because it has occurred outside the territory of India, that is, between two independent subsidiaries registered in two different countries. The deal was announced in February 2007.

Second, since India is a democratic country and influenced by the British Planning, it has adopted several regulations and legal proceedings from developed economies. Although Indian policy makers have implemented a number of liberalization policies and improved the administrative systems in government departments, they have overlooked some important laws relating to foreign direct investment and cross-border taxes. Notwithstanding, Indian tax department has investigated the Vodafone market entry and proceeded against Vodafone by filing a petition in the state-level jurisdiction, that is, Bombay High Court (BHC). After several rounds of discussions (point and counterpoint) between tax department and Vodafone in the BHC, the hearings suggested in favor of the tax department that Vodafone is liable to pay capital gains tax, arguing that the acquisition is a withholding tax transaction. Then, Vodafone challenged the BHC's hearings in the Supreme Court of India (SC), which is an apex jurisdiction of the country. Collectively, from tax department investigation to Vodafone's appeal and explanations in the SC took more than three years.

Third, the deal litigated due to long-time delay in court hearings and lengthy administrative procedures and filings. On January 12, 2012, SC declared in a final hearing that Vodafone-Hutchison acquisition is an indirect acquisition and the book of tax laws does not suggests the tax department to levy capital gains tax. Altogether, the experience of acquiring potential targets in countries such as India sends contradicting

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indications to other large multinational companies in developed countries such as the USA and the UK. This case hence is an important lesson for top-level managers involving in strategic growth choices such as M&A, and policy makers administering foreign investment and tax procedures.

Herewith, we provide a special acknowledgment to the Vodafone's management and their patience during several rounds of proceedings at the state-level court and the apex court. The problem is not related to the laws or regulations but it is highly related to the implementation of such rules and regulations at times driven by political intervention and inefficient bureaucratic administration. In the context, our argument is straightforward, when the existing law or book of law is inappropriate to justify or to judge the given case, why should Vodafone pay the corporate gains tax. We contend that the actions or behavior of various ministries (e.g. department of revenue) influenced or supported by politicking for seeking self-benefits from Vodafone in the form of bribe or corruption. Even it might be a case where a competitor or a group of competitors in the telecom business influences the government to take advantage of the market capabilities if Vodafone continue to litigate in the jurisdiction.

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

4.1.3 Stock price reaction to the announcement. In the financial economics literature, researchers examine stock returns around the merger or acquisition announcement using event study method (Brown and Warner, 1985; Fama *et al.*, 1969). Following this, we compute stock (Vodafone) and market (London Stock Exchange's FTSE-100) returns around the two incidents: deal announcement and after winning the case (Figures 3-4). We define the window period as ten days before and after the incident (−10, +10). According to media reports, Vodafone formally announced to buy Hutchison equity stake on February 12, 2007. In Figure 3, we notice that Vodafone shareholders received higher returns on the announcement day, in which the stock has gained by 1.34 percent than previous day, but the market returns declined by

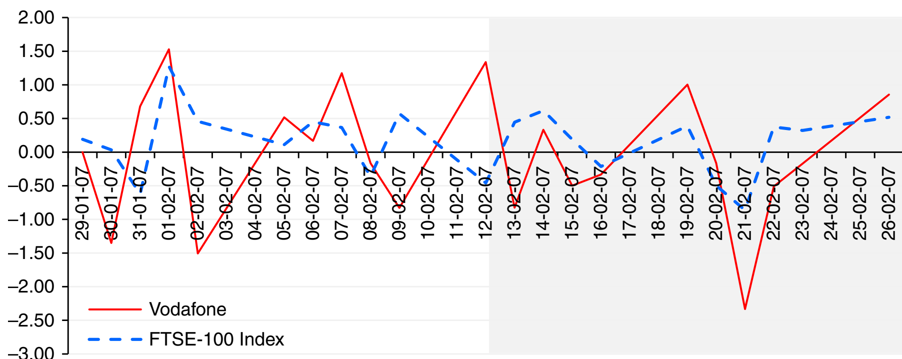
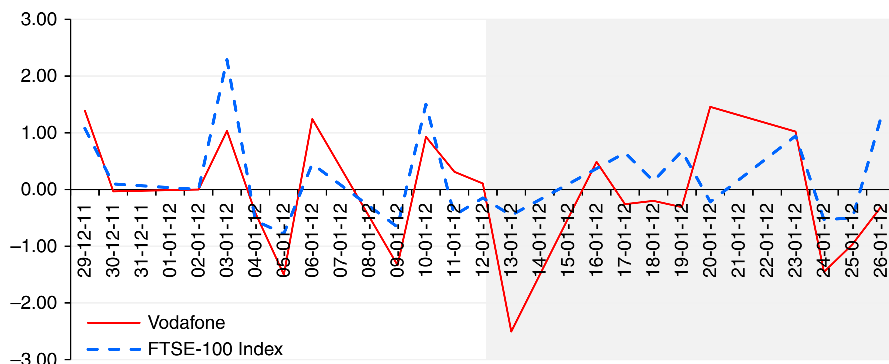


Figure 3.
Vodafone stock returns around the announcement



Source: Authors plot the graphs based on data analysis

Figure 4. Vodafone stock returns around the incident (win over the tax plea in India)

0.46 percent, and therefore, abnormal returns to be 1.80 percent. Surprisingly, the stock has shown negative returns before and after the announcement (0.83, 0.83 percent), while market returns show a positive return by 0.57 and 0.45 percent. One may argue that shareholders perceive the benefit of Vodafone's acquisition strategy of entering the untapped telecom market of India. Thus, Vodafone's acquisition plan has created significant abnormal returns to their shareholders on the announcement. From the Figure 4, one may suggest that winning the tax plea in the Indian jurisdiction has insignificant effect on stock returns on the day when the SC declared the judgment in favor of Vodafone (January 12, 2012). Albeit the stock crashed by 2.51 percent after the immediate announcement day, that is January 13, 2012, the decline in stock was not due to the latter reason, but might be the effect of other financial restructuring news. Overall, Vodafone shareholders received significant returns on the announcement day, but not on the day when Vodafone won the tax plea case. Therefore, new information regarding firm's strategic investments has a positive impact on the stock performance, which supports the "semi-strong" market efficiency (Fama, 1970).

4.2 Analysis of Bharti Airtel-MTN deal

As discussed in the method section, we analyze this case based on case development (Reddy *et al.*, 2012). In addition, we follow the case updates since the deal announcement and its appearance in the national media particularly finance print media. Bharti Airtel is a flagship telecom company of the Bharti Group based in India, has failed in twofold negotiations with South African-based telecom market leader MTN, thus to create a cross-border merger. In other words, the abandoned Bharti Airtel-MTN merger intends to do business in both the countries by making a compulsory norm, that is, dual listing. The case analysis includes strategic motives of the cross-border merger, reasons behind the abandoned negotiations, and stock reaction around the merger announcement.

4.2.1 Strategic motives of the cross-border merger. We analyze motives of the abandoned cross-country merger deal from the view of two organizations. On the one hand, Bharti Airtel is the market leader in the Indian telecom market, which has a significant market share and market value. It is one of the reputed business groups in India controlled by family ownership. The company has some experience in making domestic deals success with sufficient financial resources. The top-level management

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aims to put the Bharti Airtel as one of the leading telecom company in the world's league tables by internationalizing their operations in low-end markets like Africa, South Asia, and Middle East countries. To our knowledge, the management of Bharti Airtel has chosen "acquisition strategy" as a better growth option compared to greenfield strategy. In the literature, several scholars suggest that acquisitions provide immediate ownership and controlling rights over target resources and capabilities, and create superior value to shareholders (Haleblian *et al.*, 2009; Martynova and Renneboog, 2008; Yaghoubi *et al.*, 2016). One may pose a question regarding the market selection, why did the company choose Africa as a potential investment. Given that developed markets have reached the saturation stage in telecommunications, many USA and UK multinationals have planned to grasp the market opportunities in low-end or developing markets. Thus, South Africa is one of the constituent in the emerging economies group, which is a growing market and invites potential players in the business. Thus, Bharti Airtel has chosen African market due to pertinent business opportunities in the telecom market, hoping Africans would respond positively to the company services after the merger.

On the other hand, MTN Group is largely controlled by government ownership, and its administration is influenced by western management theories and practices. The company offers services across major African countries at par with international competitors like Vodafone, AT&T, Hutchison, etc. A fact is that MTN Group is a much larger company than that of Bharti Airtel in terms of revenues and cash flows. MTN intends to expand globally by choosing "acquisition option" as a value creation strategy among other foreign market-entry modes, and their decision "to merge with Bharti Airtel" is driven by previous- and ongoing-economic relations between India and South Africa. Overall, the strong motive of the abandoned merger is to expand into untapped telecom markets by cross-listing, thus to gain a significant regional market share in both countries.

In addition, we discuss some synergies of the transaction (if the deal successfully completed in the second innings). The synergies may include financial, marketing, operational, and technological aspects (Figure 5). The new dual-listing entity

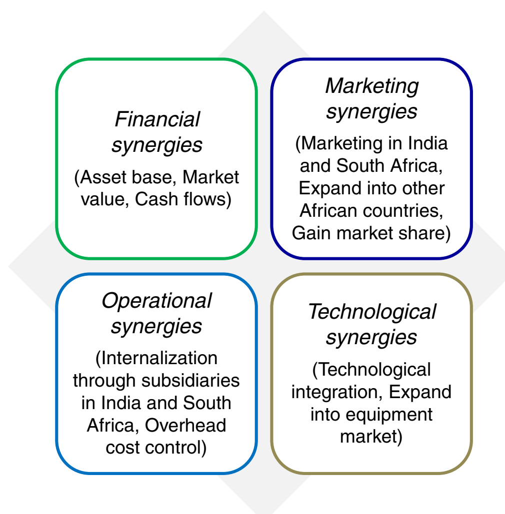

Figure 5.
Synergies of the Bharti Airtel-MTN deal (if successfully completed)

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"Bharti Airtel-MTN" in India and "MTN-Bharti Airtel" in South Africa would improve the business value in terms of revenues, market capitalization, and slack resources. The deal would have created higher value or abnormal returns to the shareholders of both companies around the merger announcement. It would have expanded into new markets in South Asia and the Middle East through greenfield and acquisition modes. As a result, the cost of services likely decreases due to market integration that leads to enhance the cost-leadership, which also improves the average revenue per user. Regarding marketing synergies, the new entity would gain higher market share both by integrating various international services and by offering services in other markets. It would have supported by the advanced technological features and operational strategies (e.g. expand into telecom equipment market). Both technology and operational strategies would have positive effects on the customer service, customer satisfaction, customer retention, cost reduction, and brand reputation. Thus, the combined ownership, administration, and expertise would focus on network and service quality that lead to build a global giant in the telecom business.

4.2.2 Reasons behind the abandoned cross-border merger. According to cross-border M&A literature, internal factors (firm- and deal-specific) and external factors (country-level factors) determine the success of cross-border deals. We present our systemic case analysis by tying the connection between extant literature and case description. The reasons behind the unsuccessful cross-border merger include firm-specific factors (status of the company, ownership structure, and previous acquisition experience), deal-specific factors (deal structure, deal type, payment mode, advisors to the deal, and their experience), and external factors (institutional issues, political issues, legal issues, and socio-cultural differences) (see Figure 6).

Firm-specific determinants. Bharti Airtel is incorporated as an Indian company and listed on the country's leading stock exchanges. The company does not offer any services outside the country and does not have an international outlook (prior to this deal). Whereas MTN Group is incorporated as a South African company, which has an international outlook due to its widespread services and operations in the African region and technology integration. In the context, we argue that a firm with some

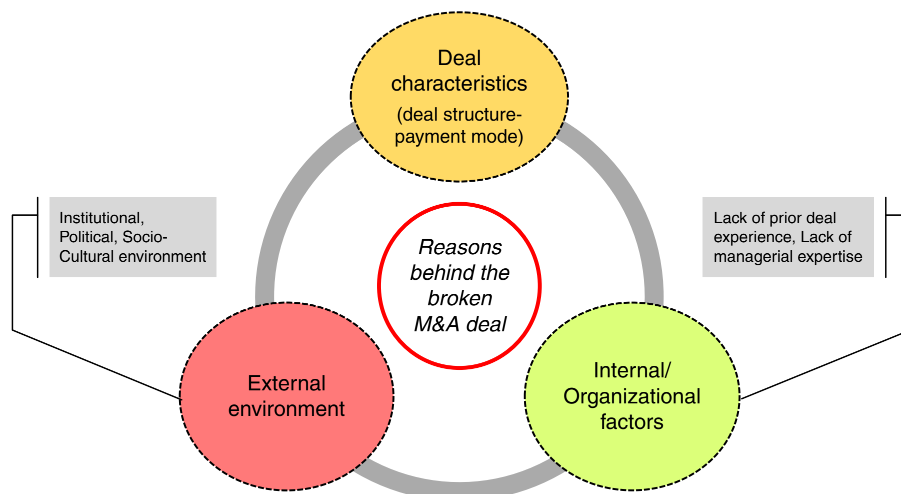

Figure 6. Reasons behind the abandoned Bharti Airtel-MTN deal

international experience may actively participate in overseas deals without making further delays compared to average deal-making time. First, Bharti Airtel (MTN Group) is largely controlled by family-owned ownership (government-owned). We contend that ownership structure has played a key role in making the deal unsuccessful. For the reason that, after the merger, ownership in the dual listing firm will be in a different form compared to the previous status as it was in unmerged firm and this issue may lead to create agency conflicts (e.g. Indian managers vs South African owners, South African managers vs Indian owners).

Second, Bharti Airtel does not have any international deal-making experience, but it has some acquisition experience in domestic deals featuring lower bids. MTN has an international outlook, but it does not hold significant acquisition experiences. We therefore agree with the scholars' evidences that previous acquisition experience in overseas deal making has a positive impact on deal completion (Collins *et al.*, 2009; Francis *et al.*, 2014; Meschi and Métais, 2013). For instance, Collins *et al.* (2009) suggest that prior foreign deal experience is a significant predictor of subsequent overseas acquisitions than prior domestic acquisition experience. For Zhu (2011), overseas deals require managerial skills and expertise to control the firm internationalization process. Further, acquiring firm's economic value, availability of free cash flows ,and market potential affect firm's strategic decisions to engage in overseas acquisitions (Gonzalez *et al.*, 1997). Third, although it is not our primary objective to evaluate the financial performance, we find that both companies show adequate cash reserves and good financial indicators in their annual reports before the merger negotiations. Fourth, managers who participated in two negotiation innings and their skills, expertise, and prior international experience in deal making influence the completion likelihood of the deal. Collectively, firm's ownership pattern, lack of prior international deal experience, lack of global outlook, and lack of managerial skills and expertise are firm-related issues of the abandoned cross-border merger.

Deal-specific determinants. Extant literature suggests that deal characteristics also determine the deal completion or incompletion. We find some studies that examine deal-specific factors influencing announcement returns, but not find studies that investigate the status of deal, negotiation process, or merger process. For Haleblian *et al.* (2009), deal success not only depends upon firm-specific factors like size, financial performance, and acquirer experience but also influences by deal-specific factors like payment method, number of bids, deal size, and deal structure. We therefore discuss the case by linking various deal characteristics such as deal structure, deal type, payment mode, and advisors to the deal, and their experience. First, Bharti Airtel-MTN deal structure is largely confused and dominated by the "importance of ownership rights" that created an institutional dichotomy "dual listing." As a result, payment method has affected both by stock transfer and by cash payment, together estimated the deal value over US$23 billion. Since the transaction is a high-valuation deal, it has a significant impact on foreign exchange reserves of the country.

Second, we question if M&A advisors really utilize their skills and expertise in deal making or building cross-border deal structures. As mentioned in the case, Standard Chartered and Barclays advised Bharti Airtel, while Bank of America Merrill Lynch and Deutsche Bank advised MTN Group. A notable fact is that all advisory firms have remarkable international experience in overseas deals ranging from private equity to joint ventures and acquisitions. They are highly reputed advisors operate internationally, have expertise in high-valuation deals in developed markets

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(Lowinski *et al.*, 2004). However, advisory firms do not have significant previous experience in deal making in emerging economies like India and South Africa. In the context, one may comment that lack of experience in deal making, which linking emerging economies adversely affects the success of the deal. Also, it is a challenging point that M&A advisors could not materialize the deal even in the second innings after knowing their mistakes in the first innings. In sum, we argue that deal-specific factors play a crucial role in cross-border merger/acquisition completion.

External factors. Several studies analyze the determinants of cross-border M&A in different economic settings, suggesting that country-specific factors such as economic and financial market indicators, institutional framework, political factors, corruption levels, geographical factors, and cultural factors have different effects on the completion likelihood of cross-border acquisition transactions (Akhigbe *et al.*, 2004; Alguacil *et al.*, 2011; di Giovanni, 2005; Erel *et al.*, 2012; Ferreira *et al.*, 2014a; Pablo, 2009; Reis *et al.*, 2013; Serdar Dinc and Erel 2013; Zhang *et al.*, 2011). For example, Rossi and Volpin (2004), and Bris and Cabolis (2008) suggest that acquisition transactions are likely to be more in countries with better accounting standards and stronger investor protection. A close look at the literature explored in emerging economies highlight that firm- and deal-specific factors do not affect all announced deals, but county-level determinants affect the success of inbound and outbound deals, especially pre-completion phase of the M&A deal (Contractor *et al.*, 2014; Lahiri *et al.*, 2014; Zhang *et al.*, 2011). This indicates that owners and managers should give more priority to institutional characteristics (e.g. regulatory framework, roles of government, cultural issues) to make more deals successful.

In the given case, Bharti Airtel-MTN cross-country M&A deal has been abandoned because of two country-level determinants, namely, institutional factors such as laws and regulations related to M&A, and political factors such as bureaucratic administration. First, every country defines their own institutional rules and regulations relating to domestic and foreign inbound/outbound investments. Scholars argue that host country governments usually restrict foreign inbound investments to protect domestic owners and to control the market prices (Shimizu *et al.*, 2004; Zhang and He, 2014). For instance, a country like India does not update or improve the institutional regulations due to higher levels of political pressure and lack of expertise in policy strategies. This dichotomous behavior not only adversely affects inbound deals but also persuades domestic multinationals to make outbound investments in less regulated countries by escaping home country restrictions as well as finding home country institutional weaknesses (Peng and Parente, 2012). In Witt and Lewin (2007), the authors argue that emerging economies firms invest in other countries as an escape response to home country institutional constraints. For instance, Bharti Airtel has expanded into African market by acquiring Kuwait-based Zain Telecom's Nigerian subsidiary operations for US$10 billion in 2010. The key institutional dichotomous law is "dual listing" (dual listing or cross-listing is a process by which a company would be allowed to list and trade on the stock exchanges in two different countries). This decision indeed influences ownership structure and scope of the combined entity (e.g. Peng and Su, 2014). Deal structure also faces serious contemplations, including the stock transfer in the form of global depository/American depository receipts and cash payment. Many countries do not allow companies to list

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and trade simultaneously on two different country stock exchanges. To our knowledge, for instance, USA allows such deals with cross-listing due to its developed financial markets in terms of size, technology, and control mechanisms. To overcome this dichotomy in emerging economies, Bharti Airtel or MTN could have materialized the deal either by making a strategic joint venture (shared ownership) or by creating a wholly owned subsidiary (full ownership).

Second, we wish to comment on political factors associated with the deal process. In short, the deal announced first time on May 6, 2008, then called-off after 19 days, that is May 25. Thereafter, they re-participated in the second innings on May 26, 2009, extended until August to September, and then finally canceled the deal on September 30 without making plans for further attempts. The deal has been abandoned due to not only institutional regime but also ruling political party intervention and erratic behavior of bureaucratic administration. This supports the construct that host country's higher levels of political intervention and weak institutional environment have detrimental effects on the success of cross-border takeovers (Zhang *et al.*, 2011; Zhang and He, 2014). For instance, the proposed deal between CNOOC of China and Unocal of the USA abandoned due to political barriers (Wan and Wong, 2009). Specially, host country government corruption has a negative effect on cross-border inward capital flows (Barbopoulos *et al.*, 2014).

Third, some researchers find that even mergers between countries with similar economic development abandoned due to national cultural differences (Fang *et al.*, 2004; Geppert *et al.*, 2013; Meyer and Altenborg, 2007, 2008; Reus, 2012). In this case, there are significant national cultural differences between India and South Africa. If national cultural issue was the main argument, the proposed negotiations might have broken in the first innings, that is May 2008. A recent study by Serdar Dinc and Erel (2013) argue that "nationalism in mergers is more likely to be motivated by sociological and political reasons than economic ones." Therefore, host country regulations, foreign policies, bilateral trade relations, and economic progress of the host country are crucial for acquiring firm managers to conduct overseas deals successfully in emerging economies like India and China (Zhang and He, 2014).

In addition, we argue that the deal has canceled due to operationalization of the equality principle (Meyer and Altenborg, 2007), and lack of careful evaluation of due diligence issues such as financial and organizational factors (Epstein, 2005). A counterpoint is that Bharti Airtel-MTN deal abandoned as similar to the canceled deal between two Scandinavian telecom companies, Telia of Sweden, and Telenor of Norway in 2001 (Meyer and Altenborg, 2007, 2008). Likewise, the acquisition of German telecom company Mannesmann by Vodafone and British subsidiary Rover by German automobile firm BMW resulted "not just as business disputes […], but as part of a wider conflict between different models of capitalism that responsible for two countries" (Halsall, 2008, pp. 787-788).

4.2.3 Stock price reaction to the announcement. We compute stock returns around the announcement for three incidents: first innings, second innings, and deal abandonment (Figures 7-9). We examine stock (Bharti Airtel) and market (National Stock Exchange's CNX Nifty) returns during the event widow, that is, ten days before and after the announcement (−10, +10). First, from Figure 7, one may perceive that Bharti Airtel and MTN initiated negotiations first time on May 6, 2008. The stock crashed by 5.32 percent on the announcement day, which is higher than the decline in market returns about 0.92 percent. Importantly, the stock has shown negative returns on the day

before and after the announcement (0.70, 3.57 percent), while the stock price rose by 1.60 and 1.52 percent on second and third day after the announcement. This indicates that Bharti Airtel shareholders are not really concern (positivism) about company's cross-border merger strategy with the South African-based MTN Group. Second, when both companies have restarted their negotiations (May 26, 2009) for a possible deal completion, Bharti Airtel stock has crashed again by 4.83 percent on the announcement

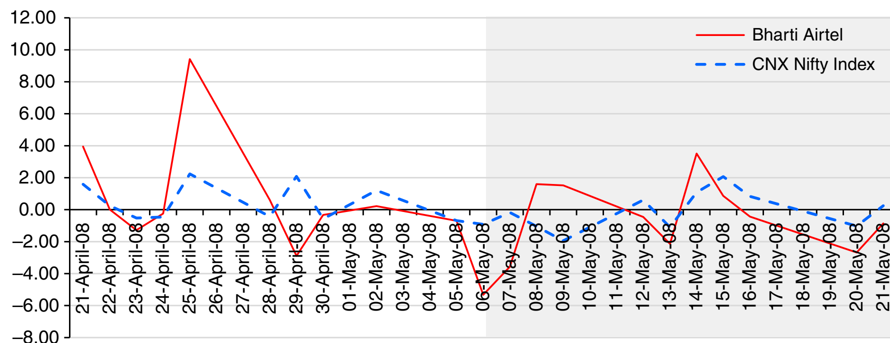

Figure 7. Bharti Airtel stock returns around the announcement (first innings)

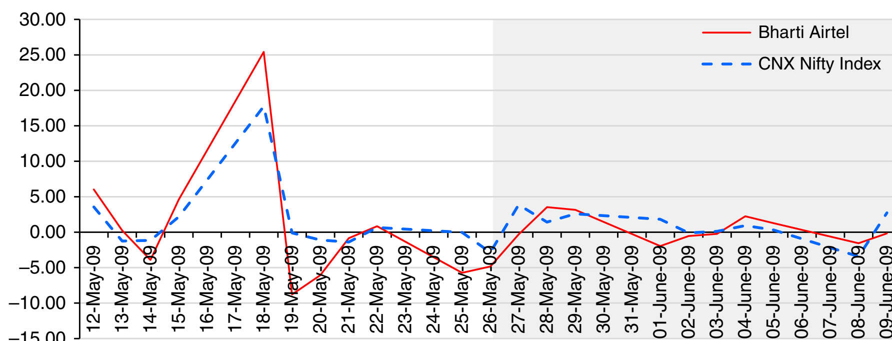

Figure 8. Bharti Airtel stock returns around the announcement (second innings)

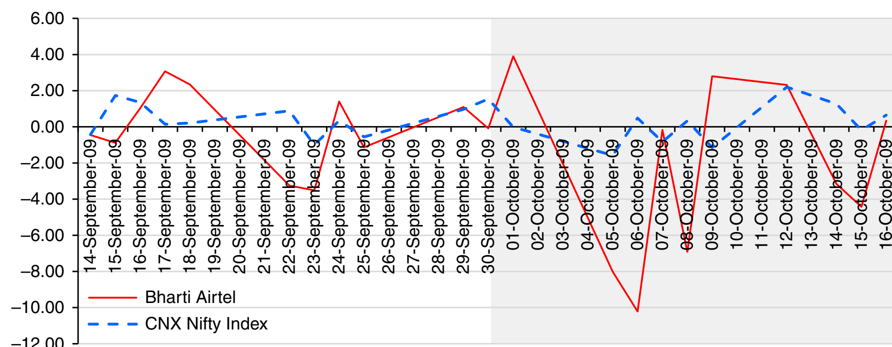

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Figure 9. Bharti Airtel stock returns around the announcement (abandoned)

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day, which is higher than the decline in market returns 2.85 percent (Figure 8). It infers that Bharti Airtel shareholders are not willing to accept the offer or the decision taken by the board. This supports the agency theory that manager's individual decisions at the expense of shareholders funds leads to agency conflicts between owners and managers (Jensen and Meckling, 1976). Third, when the deal abandoned on September 30, 2009, Bharti Airtel stock has raised surprisingly by 3.90 percent on October 1, 2009, which is the day after the announcement (Figure 9). It indicates that Bharti Airtel shareholders have benefited on the day immediate to the announcement effect, that is, "negotiations called-off." This result supports the empirical findings by Neuhauser *et al.* (2011) that canceled takeover attempts produce positive returns to the target shareholders. In our view, both companies might have decided to cancel the deal after the market closing time on September 30, but the actual performance has reflected on October 1. Overall, the behavior of Bharti Airtel stock supports the "strong" market efficiency (Fama, 1970).

4.3 Analysis of Vedanta-Cairn India deal

Multinational companies from developed and emerging economies participating in cross-border M&A transactions should pay more attention to due diligence: pre-emptive rights, contract dues, contingent payments, and country-specific issues: institutional guidelines and legal procedures, and political and government interventions. It is because they have a significant impact on the completion likelihood of border-crossing deals (Dikova *et al.*, 2010; Zhang *et al.*, 2011). A possible merger depends upon the belief and willingness of both the entities that would make the deal successful or unsuccessful. In the context, we argue that Vedanta-Cairn India deal has been delayed (later completed) due to institutional regime relating to open offers and ownership choice, political factors, bureaucratic erratic behavior, and due diligence issues. Captivating this, our case analysis sheds light on the strategic motives of the acquisition, reasons behind the delayed deal, and stock price reaction around the announcement. A protocol is that we analyze the case based on case development (Nangia *et al.*, 2011) and observations through media texts around the announcement, and support our findings by citing relevant literature on cross-border acquisitions.

4.3.1 Strategic motives of the acquisition. The key motives of conglomerate acquisition include business diversification, location experience, new market opportunities, and overall business value (Figure 10).

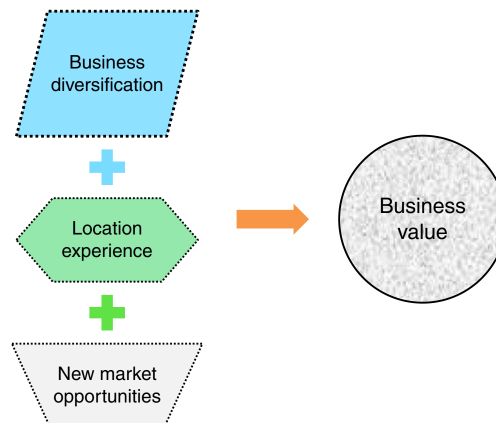

Figure 10.
Strategic motives of Vedanta acquisition of Cairn India

Business diversification. The prime motive of Vedanta acquisition of Cairn Energy stake in Cairn India is conglomerate diversification, thus to create a leading international group in the businesses of core sectors like mining, aluminum, iron ore, and oil. In the literature, scholars suggest that acquisition strategy is the most common means of implementing diversification (Hitt *et al.*, 2006; Pablo, 2013). Given that Vedanta is new to the business of oil exploration, it must consider post-acquisition mechanism in the Indian oil industry. Cairn Energy has an interest in exploration rather than refining and marketing channels. As highlighted in the press that "the acquisition enhances Vedanta's position as a natural resources leader in India. Cairn India's Rajasthan asset is a world-class infrastructure in terms of scale and cost, delivering strong and growing cash flow" (Nangia *et al.*, 2011, p. 9). Vedanta has a good prospect to become the world's third largest diversified mining group after BHP Billiton and Rio Tinto. Also, the acquisition would make Vedanta as a major oil company in Asia after Chinese state-owned oil companies. Thus, Vedanta's strategic choices provide supports to their mission statement that "to be a world-class metals and mining group and generate superior financial returns" (source: www.vedantaresources.com).

Location experience. Vedanta Group is an Indian-origin business entity where it operates business transactions from its headquarters registered in London, UK. The group operates businesses in iron ore, aluminum, and zinc. Although several state-owned oil and gas enterprises have significant shares in the Indian oil and gas industry, Vedanta has the opportunity to gain some market share using their previous and ongoing experience and local managerial expertise. A fact is that since Vedanta operates several business operations in India, it may not experience any institutional difficulties such as foreignness or newness.

New market opportunities. In our view, Vedanta would gain a new business experience by acquiring Cairn India in oil business. It is an unrelated business segment of the existing portfolio of Vedanta Group. Scholars argue that conglomerate diversification through acquisition is more likely to create new products or business opportunities rather than core competencies and competitive advantages (Hitt *et al.*, 2006; Pablo, 2013). However, since oil exploration business does not relate to direct consumer market, Vedanta may more likely become a diversified business group in terms of market strength, market valuation, and revenues. Notwithstanding, conglomerate diversification strategy may create new agency problems and destroy shareholders value, besides existing organizational issues in the diversified business group (Erdorf *et al.*, 2013).

Business value. The acquisition of Cairn Energy's stake in Cairn India may have a positive impact on Vedanta's market capitalization and overall firm value. Two reasons support this point, first, acquiring firm owns a significant ownership interest in the target, and second, ownership rights add value to the group business value (incremental growth in revenue). In the literature, some scholars argue that conglomerate diversification creates (destroys) firm value (Martin and Sayrak, 2003). For Erdorf *et al.* (2013), concentric (related) diversification improves market value than that of the increase in conglomerate (unrelated) diversification. Thus far, Vedanta business value has accumulated due to their expertise in acquisitions: deal making, integration, and management. On the other hand, the negativity of the merger includes Vedanta has no experience in the oil business, erratic laws related to the oil industry in India (e.g. oil prices, state-level impositions), higher levels of government control, and

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political pressure. In the context, we argue that Vedanta has the opportunity to create value by integrating the resources such as people, markets, and technologies, and others like board structure, technical staff, capabilities, and core competencies of Cairn India. At the same time, Vedanta endow with better prospects in the oil exploration business in India that may enhance overall business value, if they can better leverage the location advantages, prior diversified experience, international outlook, and internalization among its subsidiaries in India and overseas.

4.3.2 Reasons behind the delayed deal. We outline various reasons behind the delayed deal, namely, organizational factors, deal characteristics, due diligence, and country-specific determinants (Figure 11).

Organizational factors. Vedanta Group is one of the largest business groups in India, which operates businesses in aluminum, iron ore, copper, and zinc. The company is a registered UK firm and manages from its headquarters located in London. It has significant experience in minerals trading as well as converting loss-making units into a profit-making business. In particular, both Vedanta and Cairn Energy have a considerable previous acquisition experience in India. For example, Vedanta acquired Sesa Goa, an iron ore business among other contested bidders like Mittal Steels and Aditya Birla Group. Importantly, Hindustan Zinc Limited has shown 400 percent rise in production capacity in seven years of the post-acquisition under the control of Vedanta Group. This indicates that Vedanta has a good experience both in business making and in deal contesting. During the deal announcement, some government officials have raised questions relating to relevant business experience and other ownership issues. Notwithstanding, lack of relevant business experience is one of the reasons behind the delayed transaction between Vedanta and Cairn India.

Deal characteristics. A field-based study by Epstein (2005) suggests that acquiring firm managers should pay attention to two aspects of the deal structure, namely, price premium and payment mode. In the given case, we did not find any deal-specific characteristic that caused the deal delay or affected the average deal completion-time. First, the deal has not attracted counter-bids either from domestic or from international firms. It infers that Vedanta is the only bidder to grasp the new business opportunity by acquiring Cairn Energy's stake in Cairn India. Second, following Section 20(8) of the SEBI (SAS&T) Regulations-1997, Vedanta has paid a non-compete fee, a sum of INR 50 (close to US$1) per equity share to Cairn Energy for not to operate the same business in India, Sri Lanka, and Bhutan over the period 2011-2013. Third, Vedanta and Cairn Energy have agreed upon break fee arrangement – "will pay an amount equal to 1% of the market capitalization of Cairn Energy on the last trading day prior to the deal announcement" (Nangia *et al.*, 2011, p. 13).

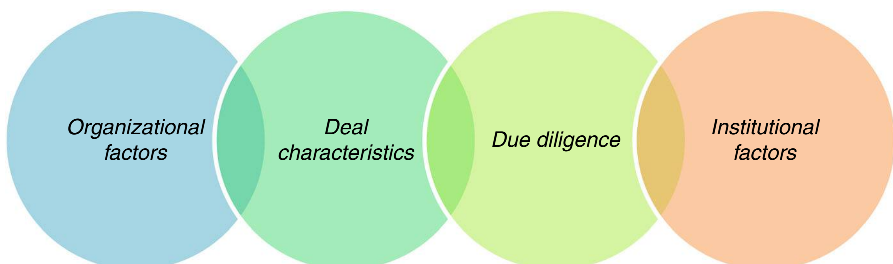

Figure 11.
Reasons behind the delayed Vedanta-Cairn India deal

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Fourth, the deal structure is meaningful and developed by professional M&A advisors, but both open offers program and payment structure are a bit confused. The open offers program at the time of deal announcement indicates that either domestic or international firm acquiring more than 20 percent equity stake in the Indian-listed entity should buy shares from the public through open offers, above than the threshold limit as prescribed in the SEBI (SAS&T) Takeover Code, 1997 (Reddy *et al.*, 2011). Because of open offers program, Vedanta has initiated a strategic plan thorough its Indian subsidiary firms – THL Aluminium Ltd, and Sesa Goa Limited. Fifth, payment structure has diluted, faced many issues at SEBI, RBI, and other government bodies including tax authorities. Regarding payment, Vedanta has paid the deal amount to Cairn Energy through long-term bank loans. Thus, Vedanta Resources has acquired 58.5 percent (direct and indirect) of ownership interest in Cairn India for US$8.67 billion after passing 16 months of the public announcement (at the time of case writing in 2010-2011). Overall, except open offers program and royalty payment, other deal characteristics like the type of deal, payment type, non-compete fee, break fee, and advisory role have no influence on the completion likelihood of the deal.

Due diligence. Scholars argue that due diligence should be conducted by professionals to ascertain the true business value of the target, and to evaluate business issues and other contingent issues attached to the deal (Epstein, 2005). In the given case, we find some due diligence issues like pre-emptive rights, production sharing contracts, royalty payment, and information transparency. First, ONGC, which is a public-sector enterprise, has 30 percent of ownership interest in the Rajasthan oil field of Cairn India. This offers pre-emptive rights or the right of first refusal in deal making. ONGC's pre-emptive rights, however do not influence the deal completion. Second, Cairn Energy has completed more than ten clearances of the Petroleum Ministry because it owns Cairn India through subsidiaries in Australia, Mauritius, British Virgin Islands, Singapore, UK, and the Netherlands. Third, ONGC has raised an issue on royalty payment, but Cairn Energy's founder expressed that "neither Cairn nor Vedanta has any role in the royalty issue and there is no subject of us paying any amount of royalty" (Nangia *et al.*, 2011, p. 2). Last, Cairn Energy has cleared other transparency issues relating to acquirer profile, previous experience and financial progress, which is an issue with ONGC. While some media statements describe the deal has been delayed due to royalty payments disagreement among Cairn Energy, ONGC, and Petroleum Ministry (Business Line, 2011). We thus suggest that acquiring firm managers and M&A advisors should pay attention to the due diligence program of the target firm (Angwin, 2001). In countries like India, white-collar crimes have become a serious considering factor in due diligence and sovereign-related compliances (Byington and McGee, 2010).

Country-specific determinants. Extant literature on cross-border M&A suggests that "deal success and the time required for deal completion" are influenced by organizational- and deal-specific characteristics, and importantly, country-specific factors such as economic indicators, institutional laws, political factors, and cultural issues (Dikova *et al.*, 2010; Erel *et al.*, 2012; Zhang *et al.*, 2011). At the outset, since UK and India have historical ties, economic and cultural issues between two countries have insignificant impact on the Vedanta-Cairn India deal. Nevertheless, we find two important issues – erratic behavior of institutional bodies and political

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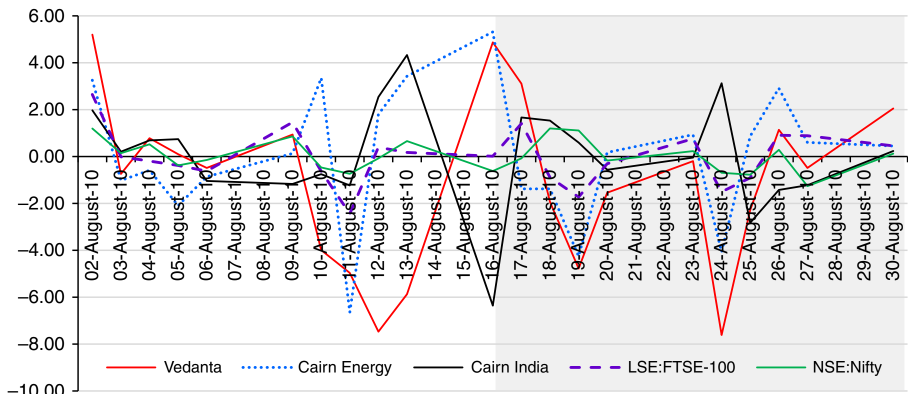
intervention – have serious effects on the success of the negotiations. First, some government ministries and politicians have tried to take the advantage of the deal, but they rather failed to perceive benefits like bribe or private cash. Because political intervention is higher in countries like India, some politicians have insisted regulatory bodies to behave unfriendly that made the deal delay. In fact, Vedanta's founder has met government officials in the Ministry of Petroleum, Ministry of Finance, Prime Minister's Office, and the President of the ruling political party. This indicates that political support is essential to doing business in emerging economies with democratic systems such as India.

Second, regulatory bodies such as SEBI and other departments have represented their erratic behavior and delayed the government approvals when Cairn Energy approached them. While Vedanta and Cairn Energy have set the deadline by April 15, 2011, the deal has completed in December, 2011. Thus, host country's political environment, regulatory framework, and behavior of sovereign departments have significant effects on the completion likelihood of Vedanta-Cairn India deal. For instance, Tingley *et al.* (2015) and Wang *et al.* (2007) suggest host country governments often protect foreign deals due to national economic security. Specifically, political influence is found to be severe in deals when state-owned enterprises become targets or when the industry is largely controlled by government enterprises irrespective of the target firm ownership structure. To note, "political concerns and perceived national security threats can lead national review agencies to quash deals in the name of national security or to protect local champion" (Zhang *et al.*, 2011, p. 228). In sum, the quality of host country framework – political, economic, institutional, and cultural environment – affects the success of cross-border capital flows.

4.3.3 Stock price reaction around the announcement. We show the reaction of stocks around the acquisition announcement and compare with the market performance. Following event study method, we examine stock returns for acquiring firm (Vedanta Resources), target ownership (Cairn Energy), target firm (Cairn India), and market index (FTSE-100, NSE-CNX Nifty) (Figure 12). The announcement date is August 16, 2010. The stock and market returns are examined around the event window, i.e. ten days before and after the announcement (−10, +10). On the one hand, comparing with market returns, both Vedanta and Cairn Energy shareholders have benefited by higher



Source: Authors plot the graph based on data analysis

Figure 12.
Stock returns for Vedanta, Cairn Energy, and Cairn India around the announcement

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returns on the announcement day (4.87, 5.32 percent). While Cairn India stock price has crashed by 6.36 percent on the announcement day and this decline is notably higher than the market returns. Hence, both Cairn Energy and Cairn India stock returns are found to be positive for two days before the announcement, while Cairn Energy stock show a declining trend after the announcement.

On the other hand, Vedanta stock returns are negative before the announcement day. Vedanta and Cairn India stock returns, however have risen by 3.11 and 1.67 percent, respectively, after the immediate announcement day (+1), while Cairn Energy stock fell by 1.38 percent. From these observations, we suggest that Vedanta and Cairn Energy shareholders positively reacted to the conglomerate acquisition. It suggests that Cairn Energy shareholders have received a better valuation to their stock and Vedanta shareholders have perceived that overall business value will more likely improve through the acquisition made in India because of location experience, previous acquisition-integration experience, and ongoing business practices in the target country. Whereas, Cairn India stock is negative on the announcement day, suggesting that shareholders might have perceived that Vedanta does not have experience in the oil business. These findings support the "semi-strong" market efficiency where the market moderately reacts to the new information relating to strategic choices such as acquisitions (Fama, 1970).

5. Cross-case analysis of sample cases

In multi-case research design, cross-case analysis is the most important task and aims to present some interesting patterns across cases, which would enhance our understanding and research learning of the completion likelihood of cross-border negotiations (Table I). The cross-case analysis presents several discussions for reasons, such as characteristics of the acquiring and target firms, typical attributes of the deal, determinants of the deal (firm-, deal-, and country-specific attributes), stock performance around the acquisition announcement, understanding and learning, and implications for host country and multinational managers. Specially, we outline some common findings across cases for diverse causes accountable for firm-, deal-, and country-level determinants.

According to Reddy's (2015a) Test-Tube case research design, unit-level analysis, and cross-case analysis of sample cases offer considerable assistance in both testing extant theories and proposing new theoretical constructs – Farmers Fox Theory (Reddy *et al.*, 2015b).

6. Discussion

6.1 Contributions

Nested within the interdisciplinary literature, at least three contributions emerge from the cross-case analysis of cross-border M&A transactions in the dynamic industries in emerging economies. First, while there is a significant dearth of research on the completion likelihood of cross-border acquisitions, the paper enhances our understanding of the failure of international merger negotiations in emerging economies such as India by adopting case study method. At the unit-level analysis, the study finds that political intervention and government officials' erratic behavior in merger process regulatory centers have detrimental effects on the time required for deal completion. This indicates that border-crossing deals take long time to reach the conclusion, which may slow down post-merger integration plans and increase

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Table I.
Cross-case analysis of sample cases

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

(*continued*)

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Determinant	Description	Vodafone-Hutchison deal	Bharti Airtel-MTN deal	Vedanta-Cairn India deal
Target	Publicly listed firm, private limited firm, public-sector undertaking, or subsidiary firm	Subsidiary firm	Publicly listed firm	Publicly listed firm
Status of acquirer	Local company or internationalized company	International outlook	International outlook and National outlook	International outlook
Target	Local company or internationalized company	International outlook	National outlook and International outlook	International outlook
Prior acquisition experience of acquirer	Prior experience in deal making at international settings	Yes For instance, Vodafone acquired German's Mannesmann telecom company in 2000	Bharti Airtel has some prior acquisition experience in domestic deals, for example, in 2001 it acquired Spice Telecom operations in Kolkata, and majority stake in SkyCell	Yes For instance, in 2007 Vedanta acquired 51% of controlling stake in Sesa Goa Limited, the India's largest producer and exporter of iron ore company
Target	Prior experience in deal making at international settings	Yes For example, HWL has indirect control in the Indian-joint venture Hutchison-Essar Limited through holding controlling interest in Hutchison Telecom International Limited	–	–
B. Typical attributes of the deal				
Number of rounds	Continuation of the deal refers to 1, other wise 2	1	2	1
Start date	Negotiations initiated	February 11, 2007 (December 23, 2006: first appeared in media)	May 6, 2008	August 16, 2010
Closing date	Negotiations completed or deal finalized	May 8, 2007	September 30, 2009	December 8, 2011
Deal announcement	The formal announcement of the deal by acquiring firm and/or target firm	February 11, 2007	First innings: May 6, 2008 Second innings: May 26, 2009 Deal called-off: Sept 30, 2009	August 16, 2010

(*continued*)

Table I.

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Table I.

Determinant	Description	Vodafone-Hutchison deal	Bharti Airtel-MTN deal	Vedanta-Cairn India deal
Payment structure of the deal (stock, cash, or both)	It refers to the acquiring firm payment method in the form of cash, stock, or both	Cash	Stock and cash	Cash and stock
Deal value (announced)	Deal value	US$11.2 billion	US$23 billion	US$8.67 billion
Motives of the acquirer	Motives of acquiring organization	To gain emerging markets advantage To pursue global diversification To gain market share To gain competitive advantage To improve business value and network	To gain low-end markets advantage To pursue international diversification To gain market share To improve economies of scale To obtain benefits from the technology transfer To gain ownership synergies	To access emerging markets To be a conglomerated diversification firm To improve business value To gain location advantage due to their previous and ongoing experience and expertise To pursue new business opportunities
Motives of the target	Motives of target organization	Better valuation of the firm Significant return on investment To hedge the liability of localness in the market	To gain low-end markets advantage To pursue international diversification To gain market share To improve economies of scale To obtain benefits from the technology transfer To gain ownership synergies	Better valuation of the firm To prevent from liability of localness problems in host country To hedge uncertainty in the business, heavy government control, political intervention To invest in other growth markets by selling their current ownership rights
Synergistic benefits	Benefits transferred to acquiring firm	Market share, sales, and network (number of subscribers)	Market share, sales, ownership advantage, technology benefits, and network (number of subscribers)	Improve overall firm value of diversified business group (e.g. market capitalization)
C. Determinants of the deal				
Firm-specific attributes	Characteristics of acquiring firm: status of the company, ownership structure, previous acquisition experience, financial performance	Ownership benefits International outlook Deep pockets through maintaining fire sales	Bharti Airtel Family ownership style Publicly listed firm Market leader in the Indian telecom	Indian-origin business group International outlook Previous and ongoing experience of doing business in India

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Determinant	Description	Vodafone-Hutchison deal	Bharti Airtel-MTN deal	Vedanta-Cairn India deal
		Previous acquisition experience Global market share and competitive advantage Advanced technology Internalization and cost cutting through integrating various markets in different geographies	market Local competitive advantage Deep pockets through managing fire sales in the local market No international outlook No prior international acquisition experience MTN Group Publicly owned though government-allied shareholders International outlook Product and service advantage Technology benefits Deep pockets through managing fire sales in African market No previous acquisition experience Competitive advantage over the African market	Previous acquisition experience in India Experienced management and control Diversified business Economies of scale through internalization of various businesses Deep pockets and financing skills among subsidiary firms No previous trading experience in oil exploration or oil related businesses
Deal-specific attributes	Characteristics of international acquisition: deal structure, deal type, payment mode, M&A advisors and their previous experience, deal breakup fee, non-compete fee	Offshore acquisition no territory connection with India cash deal experienced global M&A advisors no information related to deal breakup fee and non-compete fee	Cross-border merger dual listing dual equity structure both stock and cash payment some investment bankers agreed to finance the deal needs government approval for open offers program M&A advisors somewhat failed to materialize the deal M&A advisors have no sophisticated deal making experience in emerging economies like India and Africa	No counter-bids from domestic and international firms Vedanta paid non-compete fee, a sum of Rs. 50 per equity share (close to $US1) to Cairn Energy for not to operate the same business in India, Sri Lanka, and Bhutan over the next three years both open offers program and payment structure confused

(*continued*)

Table I.

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Table I.

Determinant	Description	Vodafone-Hutchison deal	Bharti Airtel-MTN deal	Vedanta-Cairn India deal
Country-specific attributes	Economic and financial market indicators, institutional attributes, political factors, accounting, valuation and taxation laws, geographical factors, cultural factors	Tax plea weak legal and regulatory environment bureaucratic administration erratic behavior of government officials including tax department institutional distance between two countries for various reasons including accounting, taxation, and expertise	Institutional dichotomous law referred to "dual listing" laws and regulations related to M&A political factors including bureaucratic administration cultural distance between two countries political influence and government intervention of two countries	Higher levels of government control in oil industry open offers program conflicts with SEBI erratic behavior of institutional bodies, ministries and regulatory bodies ruling political party intervention
D. Stock performance around the announcement				
Stock performance of acquiring firm	Positive or negative	Vodafone shareholders received significant returns on the announcement day (February 12, 2007), but not on the day when Vodafone won tax plea case in the Supreme Court of India (January 12, 2012) Abnormal return on the announcement day: 1.8%	Bharti Airtel First innings (May 6, 2008) Stock price declined by 5.32% on the announcement day, which was significantly higher than the decline in market returns about 0.92% Second innings (May 26, 2009) Stock price again crashed by 4.83% on the announcement day, which was higher than the decline in market returns about 2.85% Deal canceled (September 30, 2009) Stock price raised by 3.90% on October 1, 2009, while market returns slightly declined by 0.01%	Vedanta Resources Vedanta shareholders received significant higher returns on the announcement day (4.87%) compared to market returns (0.01%) Stock price gained by 3.11% after the immediate announcement day
Stock performance of target firm	Positive or negative	–	MTN Group Stock price increased by 657 rand (ZAR) due to broken negotiations with Bharti Airtel	Cairn Energy Shareholders experienced significant higher returns on the announcement day (5.32%) compared to market returns (0.01%) Stock price declined by 1.38% after the immediate announcement day.

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Determinant	Description	Vodafone-Hutchison deal	Bharti Airtel-MTN deal	Vedanta-Cairn India deal
				Cairn India Stock price declined by 6.36% on the announcement day, which was higher than the decline in market returns about 0.62% Stock returns gained by 1.67% on the day after the immediate announcement Both stocks found to be positive for two days before the announcement
E. Understanding and learning				
		We agree with the Apex court decision that Vodafone does not need to pay any capital gain taxes to the government in the view of Hutchison acquisition Due to delay in judgment, Vodafone's legal cost might have raised for reasons such as legal fee and communication cost	We argue that lack of experience in deal making, which linking emerging markets unfavorably resulted in deal success We suggest that the institutional dichotomous behavior of host country adversely affected inbound deals; at the same time, local firms make deals in foreign countries to escape home country legal and political restrictions	We argue that deal had been delayed (later, completed) due to institutional regime accountable for open offers program and royalty payments because of higher levels of government control where ONGC owned some pre-emptive right issues In addition, ownership choice, political factors and bureaucratic erratic behavior and due diligence issues found to be influential attributes
F. Implications for host country and multinational managers				
		The case would be a good lesson for countries hosting foreign investments and acquisitions It would be a piece of policy matter for various government departments including tax authorities, and local entrepreneurs,	The case would help managers of both acquirer and target firms, and M&A advisory firms while making future attempts in emerging economies like India and South Africa Host country government may need	We suggest multinational firms from developed and emerging countries participating in cross-border M&As, takeovers, joint ventures and alliances should pay more attention to due diligence (pre-emptive rights, contracts,

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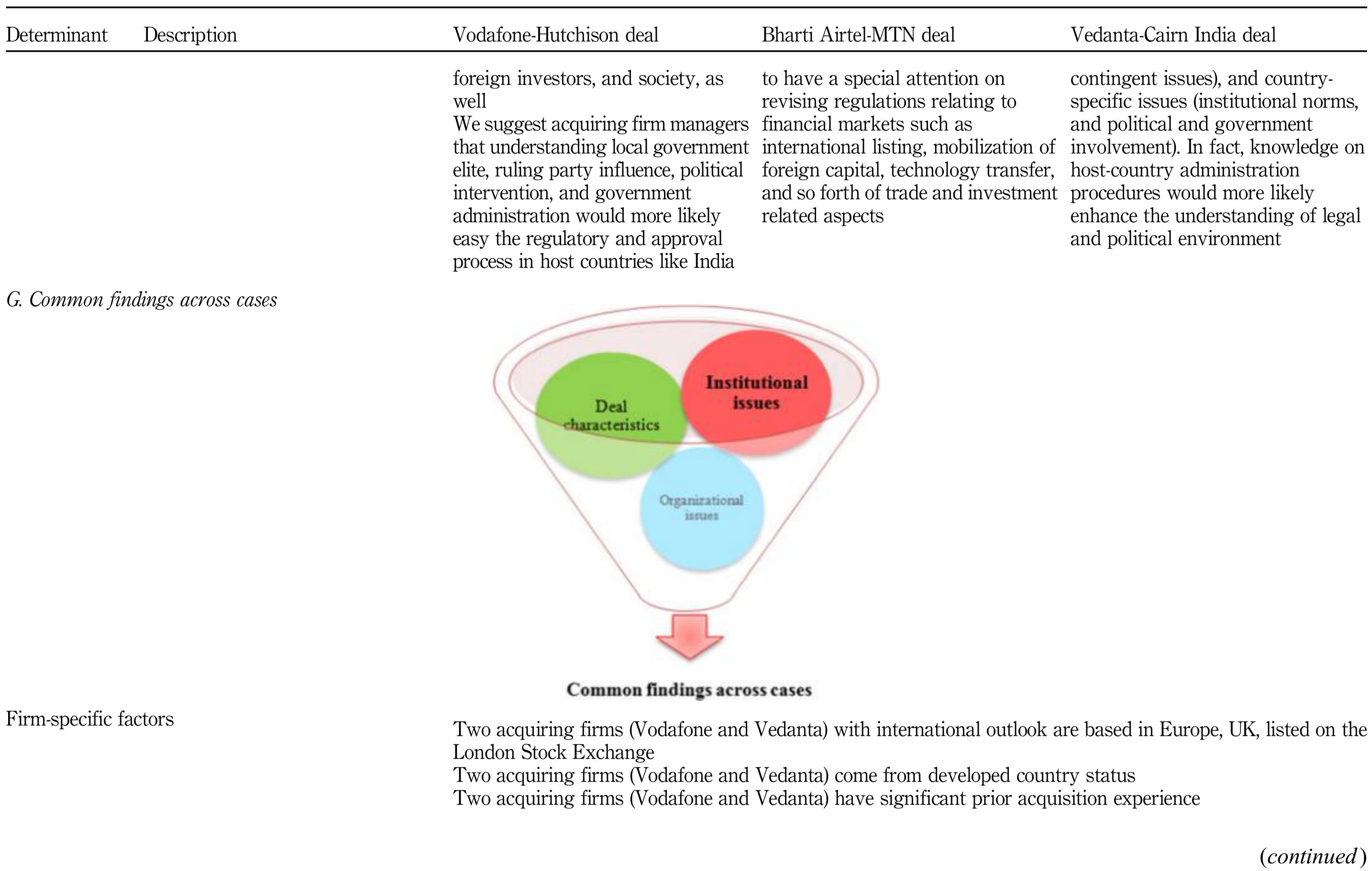
Table I.

Determinant	Description	Vodafone-Hutchison deal	Bharti Airtel-MTN deal	Vedanta-Cairn India deal
		foreign investors, and society, as well We suggest acquiring firm managers that understanding local government elite, ruling party influence, political intervention, and government administration would more likely easy the regulatory and approval process in host countries like India	to have a special attention on revising regulations relating to financial markets such as international listing, mobilization of foreign capital, technology transfer, and so forth of trade and investment related aspects	contingent issues), and country-specific issues (institutional norms, and political and government involvement). In fact, knowledge on host-country administration procedures would more likely enhance the understanding of legal and political environment
G. Common findings across cases				
Firm-specific factors		Two acquiring firms (Vodafone and Vedanta) with international outlook are based in Europe, UK, listed on the London Stock Exchange Two acquiring firms (Vodafone and Vedanta) come from developed country status Two acquiring firms (Vodafone and Vedanta) have significant prior acquisition experience		

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Determinant	Description	Vodafone-Hutchison deal	Bharti Airtel-MTN deal	Vedanta-Cairn India deal
	Two acquiring firms (Vodafone and Vedanta) have sophisticated management expertise			
	All firms participating in acquisitions show considerable cash reserves or deep pockets			
	The common motive of all acquiring firms is to improve business value by expanding the existing product and market portfolio into emerging markets			
Deal-specific factors	All three deals are cross-continental acquisitions			
	Two deals are appeared in the same continental of Europe (Vodafone, Vedanta)			
	Two deals are delayed at pre-merger negotiation stage (Bharti Airtel-MTN, Vedanta-Cairn India)			
	Two deals are successful in which acquiring firms come from developed countries			
	Two deals are successful, and from the same home country, UK (Vodafone, Vedanta)			
	Two deals are cross-border inbound acquisitions, horizontal category (Vodafone-Hutchison, Vedanta-Cairn India)			
	Two deals are related to telecommunications business (Vodafone-Hutchison, Bharti Airtel-MTN Group)			
	Two deals (Vodafone-Hutchison, Vedanta-Cairn India) that "inward nature" are focussed on ownership benefits and equity interest (more than 50% equity capital)			
	All three deals have targeted the controlling and management of the post-acquisition firm			
	Two deals (Vedanta-Cairn India, Bharti Airtel-MTN) have exercised the mixed payment option, that is, cash and stock			
	All three deals are significantly higher in terms of deal value that is more than US$9 billion (average of three deals equals to US$14.6 billion)			
Country-specific determinants	The geographic distance between host country and home country is common for two deals (Vodafone, Vedanta)			
	All three deals are publicly attention through media (print and electronic)			
	All three deals have noticeably injected by erratic behavior of government authorities			
	Underdeveloped institutional laws and provisions have dejected all three deals			
	Two deals have litigated by ruling political party intervention			
	Two deals have attracted the attention of SEBI in lieu of open offers program under the Substantial Acquisition of Shares and Takeovers Regulations, 1997 (simply Takeover Code)			
	All three deals are larger in terms of deal value, which influenced by ruling party politicians for self-benefits or corruption			
	The most important common finding of the research is that government officials' erratic nature and ruling political party influence are found to be more in foreign inward deals with higher bid value, listed company, and cash payment			

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unwanted transaction cost of the deal like government corruption and private benefits. Second, complex deal structures that underpin "dual listing" norms (India does not allow it), backing by political parties, due diligence issues, lack of host country experience, and weak financial markets regulations have significant impacts on the success of negotiations and the time required for deal completion. This observation suggests that experience in the target country, prior alliance relation with a firm operates in the target country, and easy deal structures are more likely help acquirers to complete the deals without long time delay.

Third, although cross-border acquisitions bring new technologies and create new jobs in dynamic industries, the capital flows have a considerable impact on the balance of payments and sovereign income of the target country. Since developing economies feature low-income population, insufficient government revenues, and less public expenditure, governments tend to intervene in high-valuation deals to take the advantage of capital gains tax. Notwithstanding, when such a book of law does not allow tax department to levy border tax or any other duties on cross-border transactions, multinational companies concern about "doing business environment (business risk and investment risk)" if these firms continue to litigate in such issues repeatedly on legal grounds through direct channel (government officials notice) or indirect channel (public press). All in all, the study contributes to Lucas paradox that why does not capital flow from rich to poor countries. Given that formal regulations such as open offers program, dual listing norms, and taxation guidelines have a great impact on the success of sample cases, the study adds new findings from developing economies like India to the institutional theory.

6.2 Implications for telecommunications industry

In the literature, some studies have examined motives, characteristics, announcement returns, and post-merger financial performance of telecom M&A deals. Yet, there is hardly any study that analyzes large telecom acquisitions. This paper therefore puts forth some implications for telecommunications industry by discussing two interesting cross-border inbound acquisitions in emerging economies such as India. First, although Vodafone was able to free from paying capital gains tax on the cash acquisition of Hutchison's equity stake in Hutchison-Essar Limited, the time required to hear the final judgment and the funds spent during several rounds of court hearings have significant effects on the host country's institutional framework and Vodafone's managerial assignments and accounting statements. It is clear that a roadmap for M&A in dynamic industries controlled by government-owned organizations is not well defined rather injected by ruling political party interventions. This suggests that emerging economy governments are recommended to adopt productive policies of developed economies related to not only takeovers but also industry-specific guidelines such as spectrum allocation, competition pricing, lock-in criteria for business consolidation, and technology development. A good policy supports industry development and its contribution to economic progress as well as social development (Sridhar and Prasad, 2011). Importantly, because M&A research reveals that acquisition strategy has failed to produce superior value to bidder shareholders around the public announcement and has an insignificant effect on post-merger financial performance (even for telecom deals, Majumdar *et al.*, 2012; Park *et al.*, 2002; Trillas, 2002; Wilcox *et al.*, 2001), telecom multinationals are suggested to estimate target country's business prospects and industry concentration to avoid higher-percentage of takeover

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premium and hedge other investment risks in countries with policy uncertainty risk and low-income status.

Second, the abandoned deal between Bharti Airtel-MTN shows several directions for improving merger policies in developing economies and making deals triumph in subsequent cross-border business negotiations. Since the deal has been canceled after two consecutive negotiations due to competing ownership interests and complex deal structure driven by dual listing, managers are advised to search for alternative payment options such as earnout payment and currency convertible securities. At the same time, while telecom industry characterizes high fixed costs and low marginal ones (Warf, 2003), a mix of stock and cash offer is an ideal payment structure of successful deals when entering emerging economies with higher political risk, dynamic industry nature, and weak institutional laws. Specially, managers are suggested to gain knowledge through different learning processes like learning-by-doing, learning from peers, and learning from failures in related industries. At the host country level, government needs to be open in both inward and outward direct investments as to promote a more healthy competition in local telecom industry. To our knowledge, Indian regulators such as Telecom Regulatory Authority of India and Competition Commission of India have a room to learn from the world's largest telecommunications market of China (Liu and Jayakar, 2016).

6.3 *Implications for extractive industries*

A few studies examine acquisition concept in the extractive industries such as oil and gas exploration, gold mining, and iron ore (Ericsson, 1999; Lundmark and Nilsson, 2003; Ng and Donker, 2013; Schmitz and Teixeira, 2008; Wårell, 2007; Wårell and Lundmark, 2008; Weston *et al.*, 1999). For Weston *et al.* (1999, pp. 150-151), technological change, globalization and freer trade, privatization and deregulation, industry instability, pressures for economies of scale, scope, and complementarities, and rising stock prices, low interest rates, strong economic growth have multiplied the forms and sources of competition in the industries, especially oil business. In recent years, the market for acquisitions in extractive industries has markedly increased all over the world due to cost advantages from the merged firm, better integration of operational activities, and internalization of markets. Scholars indicate that firms participating in horizontal integration have seen a positive impact on overall firm value, while firms entering unrelated business through acquisition mode have seen a negative impact (Hitt *et al.*, 2006; Ng and Cox, 2016; Reddy, 2014). While welfare measures in the oil and iron ore industries have adversely affected by mergers including horizontal modes, which is a contrasting result when compared to the expectations at the time of the merger (Wårell, 2007; Wårell and Lundmark, 2008). Overall, mergers and privatization of sovereign companies in extractive industries improve firm value as well as productivity of the target firm (Schmitz and Teixeira, 2008). However, acquiring firms must not decline the interest in promoting community relationships and improving welfare measures at both employee and society levels (Dupuy, 2014; Eklund, 2015).

On the one hand, emerging economies having strict regulatory norms relating to mergers and inward investment in extractive industries must deregulate for aspiring better economic prospects, including job creation and income generation. Hunter (2014) suggests that objective-based or principal-based regulation is an efficient method of regulating oil business, because it reduces both regulatory burden and social costs when compared to rule-based system. On the other hand, multinational enterprises that

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intend to do business in developing economies must acquire significant knowledge on legal framework relating to investment proposals, tariff barriers, tax schemes, industry competition, and more importantly, the role of state-owned enterprises in heavy industries. In addition, multinational managers should be cautious when entering in countries like India due to higher levels of government and political intervention, particularly overseas investment proposals that focus on natural resources and energy industries. Therefore, bilateral trade relations, institutional environment, political situation, and cultural attributes have serious effects on foreign investments through either greenfield or acquisition.

6.4 Limitations and future research directions

The study has been carried out within the limitations that remain to use of secondary data sources. First, since case study method suffers from quality of analysis, triangulation of theoretical frameworks, and generalization of findings (Yin, 2003), our observations based on unit-level analysis and cross-case analysis are limited to special institutional settings such as India and other developing economies. Second, although there is a dearth of empirical research on the completion likelihood of local and overseas mergers, scholars should be cautious on the generalization of our findings rooted in the three sample cases that characterize higher bid value, cash payment, and listed target firm. In order to enhance our knowledge on the status of announced domestic and international deals in the interdisciplinary setting, future research on foreign deals with delay, fail, litigation, tax dispute, government intervention, political influence, white-collar issues in due diligence, counter-bids, and negotiation process would add significant contribution to the literature on the success or failure of cross-border M&A deals. Specially, a cross-disciplinary study on the motives and antecedents of inbound and outbound acquisitions in emerging economies may well contribute to the international business literature.

7. Conclusion

The paper has analyzed three litigated cross-border inbound acquisitions in India using qualitative case study method. It has performed both unit-level case analysis and cross-case analysis to explore critical findings, which may benefit not only researchers in management but also multinational managers participating in overseas deals, particularly refer to dynamic industries like oil and gas exploration, mining, telecom, and automobile. Major findings include: first, Vodafone-Hutchison deal has been long-time delayed in light of legal dispute – international taxation – due to weak institutional environment, in which the deal has no nexus with Indian territory that does not allow government to levy capital gains tax; second, Bharti Airtel-MTN deal has been abandoned even in the second innings of merger negotiations due to weak financial market laws (cross-listing), government and political intervention, and proposed "complex" post-merger ownership structure; and third, Vedanta-Cairn India deal has been delayed, but later completed, in which the transaction attracted both due diligence issues (royalty payments) and government interference. We thus propose that sample cases in India have been strikingly affected by institutional determinants such as market and competition regulations, higher levels of political intervention, and erratic behavior of government officials. On top of that, the cross-case analysis of the completion likelihood of cross-border acquisition transactions in emerging economies contributes to the Lucas paradox.

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(The Appendix follows overleaf.)

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Appendix

Table AI.
Indian telecom services performance indicators

Description	2002 December	2005 December	2006 December[a]	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$)/sub/month)[e]	871 (15.92)	GSM: 362 (6.61) CDMA: 256 (4.68)	GSM: 316 (5.77) CDMA: 196 (3.58)	GSM: 95.77 (1.75) CDMA: 73.46 (1.34)	GSM: 95.47 (1.74) CDMA: 74.90 (1.37)
IV. Teledensity					
6 Population in million (estimated)	1,048	1,092	1,107	1,206	1,213
7 Wireline	3.66	4.47	3.64	2.71	2.59
8 Wireless	0.62	6.95	13.52	74.15	76.99
9 Gross total (Rate of growth %)[b]	4.28	11.43 (167)	17.16 (50)	76.86 (348)	79.58 (3.5)
V. Internet subscriber's base (in millions)					
10 Internet: broadband	–	6.70	8.58	22.39; wireless: 431.37	23.01; wireless: 460.84
11 Minutes of use (MOU/subs/month)	–	189	190	[c]	[c]
12 Average revenue per user (INR (US$)/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

Notes: 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. As of June 2012, there were 14 (GSM and CDMA) service providers and eight wireline providers in India. Since March 2012, Vodafone entered Fixed-line services but not CDMA services. Hence, it permitted all over India. At that time, it is one of the 21 operators in international long distance service licensees in India (TRAI, 2012). See the overview of Indian telecommunications market during 2011-2012 (TRAI, 2012, pp. i-ii). [a]In our view, Hutchison might operate until February 2007 and then Vodafone started from that period, because the deal was 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 June 12 as compared to US$0.53 billion for the quarter ending March 12, showing a decrease of 3.27 percent (TRAI, 2012). [d]Market share based on 'number of mobile subscribers'; at that time, most of the market share was gained by Indian-origin conglomerates such as Bharti Airtel (first position with 20.05 percent), Reliance (second position with 16.55 percent), and Vodafone (third position with 16.46 percent), followed by Idea (fourth position with 12.54 percent) and BSNL, among others. [e]The amount expressed in Indian currency has been converted into US dollars using the exchange rate of INR 54.72 (November 6, 2012). Moreover, 40 percent Vodafone's revenue comes from the rural sector, and the remaining from the urban and semi-urban. [f]As of June 2012, there were 14 (GSM and CDMA) service providers and eight wireline providers in India. [g] Since March 2012, Vodafone entered Fixed-line services but not CDMA services. Hence, it permitted all over India. At that time, 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)

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