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Performance of unlisted Italian companies acquired by multinationals from emerging markets : The case of Indian acquisitions

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Abstract

Purpose – The purpose of this paper is to shed lights on both economic and social impacts associated to the increasing amount of western companies acquired by multinationals from emerging countries. Focussing on the Italian context, its main intent is to analyze changes in targets' performance and capability to contribute to stakeholders' wealth to assess the business and social viability of this type of deal.

Design/methodology/approach – Operations of mergers and acquisitions (M&As) were identified through Zephyr (Bureau VanDijk's database). Only acquisitions of a controlling interest were considered for a total of eight case studies. Financial Statements and Management Reports over a eight-year period have been analyzed to understand the rationale of the deal and to assess financial performance and company social impact before and after the merger.

Findings – Results suggest that foreign investors mainly search for know-how and technical expertise and their arrival does not lead to better financial performance. Only one target records profits. Four companies are still controlled by Indian investors while the other four have been dismissed. Nevertheless Indian investors are not destroying profitable organizations as these were recording negative results already before the merger. With reference to value added distribution, acquisitions do not reduce local stakeholders' wealth for the benefits of shareholders. Jobs are preserved and valued added is mainly distributed to employees. Great difficulties in achieving the expected value resulting from synergies emerge.

Research limitations/implications – Observations emerging from this explorative study are limited to the case studies analyzed while it could be important to enlarge the number of companies to investigate, including targets acquired by Russian, Chinese and Brazilian investors. Moreover, additional information could be obtained from interviews with top managers to reveal how they interpret the merger's success or failure. Also interviews with local stakeholders like suppliers, clients, representatives of employees and local institutions could be of great importance as they can help identify their specific point of view about the social and economic impact of foreign investors' arrival.

Practical implications – With reference to the public debate on the increasing number of European companies sold to foreign investors, research findings indicate that FDI from emerging economies do not necessarily lead to job losses or target's closure. Indian investors are interested in brand, knowledge and other intangible assets (like Chinese ones). However they do not relocate production or expertise abroad. Some target companies record higher investments financed by the new shareholder, indicating that the arrival of new investors owing a large amount of money to invest in financial distressed Italian companies, can be beneficial to the local economy.

Originality/value – Most literature studies M&As from the buyer's perspective to assess if shareholders' value is created (Tuch and O'Sullivan, 2007; Meglio, 2009; Dauber, 2012). On the contrary this research adopts the target's and stakeholders' perspective, in order to measure the value created and distributed to the territory. Moreover it focuses on unlisted companies, while most studies deal with publicly traded companies (Meglio and Risberg, 2010; Meglio and

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Risberg, 2012b). Lastly it enriches M&A mainstream literature, which usually adopts a positivistic mindset and rely on statistical analysis, by adopting a qualitative approach based on case study analysis.

Keywords Case study, India, Merger, Acquisition, Emerging multinationals, Social impact

Paper type Research paper

Introduction

As stated by Gomes *et al.* (2013), mergers and acquisitions (M&As) are of great practical importance in strategic, monetary and social terms. However, they often fail, especially in reference to cross-border mergers (Meglio and Risberg, 2012b) and in emerging multinational enterprises (EMNEs), which have limited international experience and capabilities (Tan, 2005). Instead of creating value from the exploitation of partners' synergies, the arrival of a foreign partner might destroy value (Lu, 2004) for both the acquirer and the target, leading to the winding up of the target company. Consequently it is very important to evaluate if the target records adequate profits after its acquisition and can attain its long-term survival.

Most literature has examined M&As from the buyer's perspective to assess if shareholder's value is created (Tuch and O'Sullivan, 2007; Meglio, 2009; Dauber, 2012). On the contrary, this research adopts the target's perspective in order to measure the value created and distributed to its stakeholders. Reasons for failure or success (i.e. inadequate partner selection, insufficient international experience of the acquirer, post-merger conflicts) are not investigated here. The focal point is on assessing the success or failure of the acquisition. Thus, the research question that this study aims to answer is the following:

RQ1. Do Italian companies loose their capability to create economic value and to distribute it to their stakeholders after being acquired by multinationals from emerging countries, i.e. India?

The study refers to Italy because its industrial specialization in automotives, machinery, textiles and clothing may be attractive to multinationals from emerging countries, which are trying to upgrade their production and technological capabilities in order to build their own global champions in these industries. These countries are rapidly moving toward high-tech goods production as seen from their export's technology and skill content. As indicated by ICE-Reprint database, Italy is witnessing an increasing presence of investors from emerging economies in the cited industries (Mariotti and Mutinelli, 2008).

The research focus is on unlisted companies. Although newspapers extensively report on large deals like the sale of Pirelli – the tire manufacturer – to the Chinese state-owned ChemChina and acquisitions of historical brands by foreigners, like the Italian fashion house Valentino and the winemaker Gancia, they represent a minority. Unlisted small-sized companies are becoming the favorite targets (Trovato, 2013). Foreign large investors prefer unlisted SMEs where changes and integration between companies can be easily implemented, complexity is lower and synergies can be achieved more quickly. In addition, we investigate SMEs because their activities usually involve local stakeholders, like domestic suppliers, banks, creditors and local workers (Jenkins, 2006). Thus, acquisition failure may strongly impact the social and economic stability of the local territory.

Findings pertain to eight case studies regarding unlisted medium-sized Italian companies acquired by large Indian multinationals. Most targets are involved in the production of motors, steel parts and components for the automobile sector. In addition, we studied two textile companies and one company working in the pharmaceutical sector. The examined bids concern acquired companies and buyers who operate in the same sector, the situation in which it is more likely to generate synergies intended to give more efficiency and higher profits (Tuch and O'Sullivan, 2007). Targets' performance is assessed using statutory accounting returns, since share price information, usually adopted to evaluate M&A success, is not available for unlisted companies.

The Author aims to participate in the recent public debate on the increasing number of Italian companies who are sold to foreign investors: a phenomenon exploded after the worldwide financial crisis (Eurispes, 2013). On one hand, media negatively describes foreign acquisitions because they are held to imply a loss of knowledge, expertise and other intangible assets for the national economy together with a possible reduction of jobs. On the other hand, there are politicians and financial consultants and experts who welcome the arrival of new investors owing a large amount of money to invest in financial distressed companies, sometimes characterized by succession problems.

The Author also aims at contributing to M&A literature as following. First the research focuses on unlisted companies, which are seldom mentioned because most studies deal with publicly traded companies (Capron and Shen, 2007; Meglio and Risberg, 2010; Meglio and Risberg, 2012b). Second, it adopts the target's point of view, which is underrepresented (Thanos and Papadakis, 2012b). Past research mainly assessed acquisitions' outcomes from the buyer's perspective and focused on shareholder's value creation, with very few exceptions (Graebner and Eisenhardt, 2004; Dalziel, 2008; Buckley *et al.*, 2010, 2014). Lastly, with its explorative nature and the adoption of a qualitative approach based on case study analysis, this study enriches the mainstream literature, which generally favors a positivistic mindset, and overemphasizes the importance of finding general laws that rely on linear models and statistical analysis (Meglio and Risberg, 2010).

Literature review

Acquisitions from emerging market firms

Europe, US and Asia are recording an increasing amount of FDI from China and India (Sauvant, 2008). These two countries, together with Brazil and Russia (also called BRICs), are the main players of the latest wave of M&As (UNCTAD, 2012), which is studied not because of its amount (which is quite low) but because of its rapid growth (Chen and Li, 2006; Collins, 2013). Moreover, the arrival of firms from emerging markets in Europe should not be regarded as a crisis-induced phenomenon. The development of inward European FDI shows a long-term trend, which started in 2001 (European Competitiveness Report, 2012).

Cross-border M&As involving companies from such emerging markets have particularly attracted studies of industrial organization and strategic management. The majority of them aim to understand drivers and patterns of internationalization to eventually identify differences between the behavior of western companies and those from emerging markets (Balasubramanyam and Forsans, 2010; Yeoh, 2011; Rienda *et al.*, 2013). They compare motives, firm-specific and environmental factors, institution- and industry-based antecedents and modes and outputs of international investments realized by EMNEs (Yamakawa *et al.*, 2008; Intarakumnerd *et al.*, 2013; Filatotchev *et al.*, 2012; Stucchi, 2012). Moreover, they focus on obstacles that may arise in all phases of the acquisition process, from partner selection to post-integration, because of cultural and institutional differences of EMNEs' environments (Goldstein, 2007; Filippov, 2012).

On the contrary, the economic and social impact on target companies and their stakeholders are scarcely investigated. Among management studies, only the recent work of Buckley *et al.* (2010, 2014) examines the performance of companies targeted by EMNEs; expressed in terms of target's sales and net income before tax. Generally speaking, the majority of M&A studies refer to acquirers' performance. Both Dauber's (2011) and Thanos and Papadakis' (2012b) reviews of the literature indicate that less than 10 percent of papers consider targets' performance. Consequences in reference to the capability of acquired companies to create value for all their stakeholders (and not only for shareholders) are discussed even less.

Economics studies give greater attention to the socio-economic impact of FDI performed by EMNEs, but they mainly adopt a macro-economic perspective. The effects of acquisition waves are evaluated in terms of productivity improvements and social welfare for the home and host country (Kokko, 2006; Globerman and Shapiro, 2008; Sanfilippo, 2013). Unfortunately, there is no clear-cut evidence on European recipient economies taking advantage of the positive effects usually attributed to foreign investments, i.e. capital stock increase and job creation. Western multinationals brought productivity improvements, wage increases, technology advances and modernity when they first entered the Chinese market and other developing countries (Lipsey, 2002; Uhlenbruck *et al.,* 2003; Kumaraswamy *et al.*, 2012); while there is no support for similar benefits arising from current BRICs' investments in Europe.

The majority of research on BRICs concerns Chinese companies which invest in either Africa or Asia to acquire raw materials and energy sources; or they target European and North American organizations to acquire local strategic assets like technology, brands, knowledge and market access (Buckley *et al.*, 2007; Rui and Yip, 2008; Deng, 2009). In addition, Indian investments are under investigation (Nayyar, 2008; Milelli *et al.*, 2010; Gubbi *et al.*, 2010). On the contrary, Russian multinationals are scarcely examined (Filippov, 2012) and their Brazilian counterparts even less.

Acquisitions toward Europe share a common characteristic: the targets of developed countries enable emerging economy firms to gain critical intangible assets which are required when competing in the global arena and performing a strategic renewal (Mathews, 2006; Luo and Tung, 2007). Moreover, these foreign investors are characterized by being larger than their domestic owned companies. International statistics indicate that China and India are the most important players and they prefer to invest in Germany (especially Chinese firms), UK and the Netherlands (PBL-Netherlands Environmental Assessment Agency, 2011).

Even with reference to Italy, we find that the main buyers of local companies are Chinese and Indians, as shown in Table I. Targets are mainly small and medium-sized companies. Only Russian investors complete bids involving large organizations. According to Spigarelli (2010), Chinese investors are usually interested in purchasing intangible assets like brands, know-how, technical knowledge and marketing capabilities, which represent the source of competitive advantage of many Italian companies operating in to the so-called traditional manufacturing sectors like clothing and furniture (Di Tommaso and Rubini, 2012). The Italian situation is quite similar to the German one: in both countries Chinese multinationals target high intensive knowledge industries. On the contrary, the Netherlands and other small European countries record a large share of FDI toward the distribution sector, confirming the idea that the Netherlands are considered a gateway to Europe for Asian products (Groot *et al.*, 2011).

Measuring M&A success

The literature on M&As had begun being formalized in the mid-1960s with Manne's studies (Haspeslagh and Jemison, 1991). Although starting from different theoretical

	2005	2006	2007	2008	2009	2010	2011
Number of targets							
Brazil	3	6	7	24	24	25	10
Russia	18	25	37	51	59	58	65
India	26	32	51	84	80	83	86
China	28	32	46	70	77	81	86
Total deals from BRICs	75	95	141	229	240	247	247
BRIC weight % on total FDI in Italy	0.94%	1.18%	1.70%	2.70%	2.85%	2.94%	2.91%
No. of target's employees							
Brazil	14	141	158	2,257	2,348	2,292	674
Russia	4,124	33,785	34,306	10,951	10,006	9,830	16,136
India	2,218	2,239	3,895	6,934	6,532	6,156	5,567
China	1,240	1,348	1,769	2,889	2,833	2,820	2,885
Average no. of target's employees							
Brazil	5	24	23	94	98	92	67
Russia	229	1351	927	215	170	169	248
India	85	70	76	83	82	74	65
China	44	42	38	41	37	35	34
Target's revenues (millions €)							
Brazil	196	315	640	1,912	1,402	1,456	287
Russia	2,321	3,031	4,006	5,492	5,891	7,544	14,157
India	515	439	802	2,440	1,875	2,224	2,561
China	676	721	914	1,666	1,187	1,869	1,941
Average target's revenues (millions €)							
Brazil	65	53	91	80	58	58	29
Russia	129	121	108	108	100	130	218
India	20	14	16	29	23	27	30
China	24	23	20	24	15	23	23

Source: Ice-Istat, Reprint

Table I. BRICs investments in Italian companies

assumptions and using different methods, several schools have investigated this phenomenon with the same purposes: to understand whether these operations create value and to identify the characteristics of the deals, which might impact the performances of the merging companies (Capasso and Meglio, 2007; Cartwright and Schoenberg, 2006; Meglio and Risberg, 2012a).

According to the specific theoretical framework adopted, M&A performance is conceived in many different ways (Dauber, 2012). Coherent to different definitions of success and failure, different methodological approaches have been used to assess acquisitions' performance (Tuch and O'Sullivan, 2007; Dalziel, 2008; Haleblian *et al.*, 2009; Cording *et al.*, 2010; Meglio and Risberg, 2010). Although event study methodology is most common, other approaches have also been applied (Zollo and Meier, 2008). These range from qualitative studies based on the manager's evaluation of the merger's success to the objective measurement of M&A performance through accounting returns; and to the more recent approaches of residual income (Guest *et al.*, 2010) and data envelopment analysis (Singh, 2009). Below we provide a description of the most widespread methods used to measure acquisitions' performance.

A simple approach to evaluate M&A success is Porter's (1987) approach, which conceives divestiture as a proxy for failure. Like other researchers belonging to the

Strategic Management School, he aimed to predict M&A performance by focusing on the characteristics (i.e. assets and resources) of the companies going to merge (Chatterjee, 1986; Singh and Montgomery, 1987; Porter, 1987). In particular, he discovered that there was a higher rate of failure in the case of unrelated acquisitions. However, only a few studies adopt this approach (i.e. Pennings *et al.*, 1994; Bergh, 2001). Divestiture has been largely criticized since it does not always follow managers' dissatisfaction with performance. For example, acquirers might decide to sell the subsidiary just because it is more profitable than continuing on the company (Kaplan and Weisback, 1992).

A more common approach used in takeover studies is stock price analysis and the application of event study methodology. This refers to the field of Financial Economics which prefer quantitative studies. It assumes perfect market efficiency, therefore analyzing the changes in stock prices that occur immediately after the announcement of the acquisition. However, this methodology is limited to companies with traded shares and it has some drawbacks such as a possible market mispricing at announcement (Guest *et al.*, 2010). Also within these studies, industrial relatedness of the merging companies has been considered and measured through industrial classifications and SIC codes. Relatedness is expected to provide a greater possibility for economies of scale and scope, which are likely to produce better performance and higher returns.

Another widespread approach used when evaluating whether an acquisition was successful is the assessment of synergy realization. Studies belonging to the field of Strategic Management mainly rely on the resource-based view of the firm (Ferreira *et al.*, 2014) and consider the creation of synergies after the merger as a specific performance indicator, separate from traditional financial performance measures (Dauber, 2011, 2012). Companies can achieve operational, financial, tax and other type of synergies. Operational synergies are the most common but also the most difficult to realize (Garzella and Fiorentino, 2014). Synergies can originate from resource rationalization or the combination of complementary resources. In the first case they are expected to produce cost reductions thanks to economies of scale and scope, while in the second case they should generate process and product innovations and increased revenues.

Since synergies may not immediately translate into profits and their long-term impact is hardly captured by stock prices, several different metrics of acquisition performance other than acquisition announcement returns have been employed. Previous reviews of the literature (Capasso and Meglio, 2007; Cording *et al.*, 2010) have detected the usage of accounting measures as well as managerial self-reports. Interviews and questionnaires which rely on managers' subjective measurement are applied to assess the degree of synergy realization, to evaluate the efficacy of the integration process and to measure the results achieved (Garzella and Fiorentino, 2014). Results are usually expressed in non-financial terms, i.e. the number of new patents, knowledge transfers which occurred and new customers acquisitions. The creation of new distinctive capabilities represents another important indicator of the value-creating activities of the merged firms since they are expected to translate into long-term wealth creation for the stakeholders (Caiazza and Volpe, 2015). However, studies based on these variables are scarce because of the difficulty in constructing valid proxies measuring capabilities' creation. Thus, studies merely look at the value difference between synergy realization and synergy expectations (Garzella and Fiorentino, 2014).

Lastly, there are studies in finance and accounting, which assess M&A performance through accounting data stemming from financial statements (Buckley *et al.*, 2014). Interestingly, research on Indian acquisitions has primarily been based on accounting returns, while event studies method dominates at the international level (Krishnakumar and Sethi, 2012). Although being characterized by several limitations like being past oriented, unable to account for intangibles and subject to managerial manipulations through earnings management and changes in accounting methods and policies (Capasso and Meglio, 2007), the usage of accounting data has several advantages (Chenhall and Langfield-Smith, 2007; Thanos and Papadakis 2012a, 2012b). First, the information stemming from accounts is objective because they report actual performance, contrary to market value, which represents investors' expectations, and it differs from questionnaires' answers which are perceptual as based on managers' assessment of success. Second, accounting data is available to the public including for unlisted companies. Third, it is more suited to evaluate the long-term impact of acquisitions on operating performance.

This group of studies usually assesses changes in company performance in terms of key indicators like the growth trend in sales or operating revenues (Ellis *et al.*, 2009; Stahl and Voigt, 2008; Dauber, 2011; Buckley *et al.*, 2014) and variations in net income and EBITDA, which is also used as proxy for the company cash flow (Powell and Stark, 2005; Buckley *et al.*, 2014). Even more widespread is the calculation of accounting ratio like return on asset (Zollo and Singh, 2004) or return on investments (Barkema and Schijven, 2008), return on equity (Guest *et al.*, 2010), capital ratio and net sales/assets ratio (Dauber, 2011). A list of commonly used accounting measures is provided by Thanos and Papadakis (2012b), who also indicate that the studies using cited ratios and growth measures on average detect a deterioration in the financial performance of both the target and the acquirer.

It is important to note that the preference for a different measure for M&A success frequently leads to different conclusions, especially when using non-financial measures such as innovation outcomes, technological performance or knowledge transfer (Meglio, 2009; Thanos and Papadakis, 2012a). Duso *et al.* (2010) suggest that the event study methodology that employs market-based performance measures can predict the same findings on merger effects of estimates based on accounting data. However, this judgment is confuted by the study of Sharma (2010). Different results are also obtained by Guest *et al.* (2010), who test three different approaches to evaluate mergers' performance. Thus, mixed methods and plurality of measures are often recommended (Zollo and Meier, 2008; Krishnakumar and Sethi, 2012; Capasso and Meglio, 2007).

In addition, before choosing the evaluation method, it is noteworthy to acknowledge the specific characteristics of the country of study and more significantly the aspect researchers aim to examine (Krishnakumar and Sethi, 2012). There are some countries where the stock market is not so efficient, thus the use of event study results unsuitable. Event studies are perfect to assess stock market perception while they are inappropriate if the research objective is to assess target's profitability and the real impact of FDI.

When trying to evaluate M&A performance, it is also important to identify the situations in which managers do not attach objectives of financial improvement to the merger. Capasso and Meglio (2007) state that event study methodology should be used only for acquisitions aiming to capture economic value. On the contrary it is ill suited when the acquisition is strategic and its effect will take years to unfold. Similarly, Dauber (2011) suggests that some acquisitions are motivated by the elimination of a competitor or the gaining of a specific know-how and they are accomplished even if the sales volume does not increase or the company incurs in losses for several years. In these cases, financial results are not the most useful way to measure M&A success. Mixed methods that integrate financial data analysis with managers' interviews, seem to be more appropriate and both qualitative and quantitative measures should be used.

Lastly, even if we assume that sooner or later the acquisition will result in improved performance, it is important to understand the extent to which results have been impacted by the acquisition or by other external factors like a change in market conditions. As a consequence, industry benchmarks should be used to differentiate between common industry developments and acquisition-specific changes (Dauber, 2011; Thanos and Papadakis, 2012b).

From financial performance to business sustainability

Although public opinion in Europe and the US has sometimes reacted negatively to FDI from emerging economies, being afraid of a possible negative impact on the host country, sustainability issues are scarcely addressed in M&A research (Lohr, 2005; Goldstein, 2006; Hall, 2008; Filippov, 2012). Filatotchev *et al.* (2012) suggest that "there are often voiced concerns that emerging economy multinationals may be less committed to international standards and codes of conduct." Italian studies do not question the possible negative effects on the local economy deriving from these operations, with the exception of Aureli *et al.* (2011), who investigated a case study of local stakeholders' active participation in preserving existing jobs and avoiding company transfer to another location.

The sustainability of a business activity in terms of economic, social and environmental impact of company operations represents an important topic discussed by academics, institutions and general public both in Italy and abroad (Rusconi and Dorigatti, 2006; Porter and Kramer, 2006). The stakeholder's demand to meet the need of the present generation without compromising those of the future is increasing and is influencing companies to adopt a socially responsible behavior. Sustainability can even represent a source of competitive advantage (Porter and Kramer, 2006; Perrini and Vurro, 2010). Thus, more and more companies include the concept of CSR in their strategies and policies, which is integrated in all business processes, from company governance to production and distribution (Jamali *et al.*, 2008; Perrini and Vurro, 2010). This also applies to small- and medium-sized businesses (Spence *et al.*, 2004; DelBaldo, 2012).

According to the stakeholder theory (Freeman, 1994, 2006; Freeman *et al.* 2010), companies are aware that value creation and business performance are linked to the ability to create good relationships within the communities a company interacts with and their components, such as employees, banks, shareholders and public administration (Rushton, 2002; Michelon *et al.*, 2013). Coherently, a company creates wealth not only for itself but also for the community that interacts with it (GBS, 2007). From this perspective, company performance can be expressed by the value-added, which measures corporate wealth production and its distribution among people, businesses and institutions. Value-added creation represents the contribution of an enterprise to the nation's domestic product and value-added distribution represents a condition without which a company would not be able to survive; every company has to remunerate production factors and satisfy its stakeholders' interests, especially those who took part in the production activity (Freeman *et al.*, 2010; Noland and Phillips, 2010).

Therefore, value-added analysis is a useful tool which can guide the company management and also disclose relevant information to various stakeholders (Perrini and Vurro, 2010). In Europe this information on value-added is usually inserted as part of the social report or sustainability report published by a company (Van Staden *et al.*, 2014). The social report represents a set of documents added to traditional financial statements, which provides qualitative and quantitative information regarding the activities undertaken by a company to assess and improve its economic/social/environmental impact.

However, when dealing with unlisted, medium-sized businesses (as in our research) it is difficult to find specific documents describing objectives and results concerning the "triple bottom line" (Molteni *et al.*, 2006). Some SMEs might promote the social and economic development of local communities but they do not measure nor disclose it because company's social responsibility derives from the entrepreneur's and the manager's personal values (Hamingway and Maclagan, 2004; DelBaldo, 2012). Thus, in the absence of other measures and standards, the most appropriate indicator of an organization's economic and social impact is represented by the calculation of economic value-added from company accounts.

Methodology

Although referring to M&A literature, this study focuses on Indian corporations acquiring a significant stake in Italian unlisted companies. In order to clarify the substantive domain in which the empirical findings may or may not apply to, we have described the distinctive research settings below (Meglio and Risberg, 2012a).

Acquisitions by foreign investors were identified, recurring in Bureau Van Dijk's Zephyr database, which contains information on more than 50,000 European M&As. The database search was performed to identify acquisitions occurred between Italian targets and companies originating from BRICs. Joint venture creations, minority stake acquisitions with a capital participation of less than 30 percent and rumors were excluded. In order to have at least three years of financial statements to analyze before and after the year of the acquisition, the deal should have occurred in 2009 or earlier.

The search output suggested that Indian investors were most active from 2007 to 2009 (for a total of 16 deals) compared to Russians (13 deals), Chinese (three deals) and Brazilians (three deals). Year 2009 was a period of stagnation, because of the economic contraction and high uncertainty caused by the worldwide financial crisis, while 2007 recorded the highest number of acquisitions performed by Indians. Consequently, we chose 2007 as a reference year for a total of eight deals to investigate. Three of them refer to the same Indian investor: Endurance Technologies Pvt Ltd, which acted as a serial acquirer (Laamanen and Kiel, 2008).

Aspects examined within the eight deals are:

- basic information on the target's and acquirer's activities;
- the relative size of target companies;
- the industry relatedness of the merging partners; and
- the target's key performance measures calculated from financial statements.

Qualitative information is drawn from the Notes to the Accounts and Management Reports. These documents provide information on the firm's size and partners' industrial relatedness, which most literature expresses as being able to influence the acquirer's and target's performance (Moeller *et al.*, 2004; Tuch and O'Sullivan, 2007).

The target's financial statements over an eight-year period have been collected to assess financial performance before and after the acquisition, and to verify whether there was an increase or a decrease of value-added distributed to the target's stakeholders. Since the time horizon generally framed for the realization of synergies ranges between three and five years (Garzella and Fiorentino, 2014), we analyzed financial data referring to the year of the acquisition and the subsequent four years (see the Appendix).

Following previous studies, even though the main focus is on value-added creation, we compare pre- and post-merger performance in terms of ROA, ROE and variations in the target's sales and net profit. Comparing previous years is granted because all target companies adopted national accounting standards before and after the acquisition. On the contrary, comparability with international peers, i.e. European companies, acquired by Indian multinationals is hindered.

We used value-added to investigate the company's social impact because social and sustainability reports of the targets investigated are not available to the public (if they even exist). Value-added helps measure the wealth created and helps us understand how it was distributed to the contributors of value (Cording *et al.*, 2010). Moreover, value-added can be regarded as a part of social responsibility accounting. The calculated value-added is distinct from the value-added that is usually obtained by strictly applying accounting practices (Montrone, 2000). As shown in Table IV value-added is not the mere difference between total company outputs and inputs. This study uses the methodology proposed by GBS (Italian Sustainability Report Study group), which perceives depreciation and amortization as input factors that should be deducted from the value of annual production in order to better indicate how wealth is allocated to employees, financial institutions/banks, public administration and shareholders. Its structure is similar to the German definition of added-value (Van Staden *et al.*, 2014). The net overall value-added represents the value created by a company during the reporting period which can be distributed to external subjects. Labor costs, interest expenses, income tax and dividends are deducted to the net overall value-added and the impact of each item is calculated. Its structure is useful in comprehending the economic impact the target company produces and it connects financial statements with sustainability reports when present (Gabrovec Mei, 2004).

Among different possible methodologies used to measure the impact of foreign investors, we mainly rely on accounting data from financial statements, because these data are functional to our research question. This information allows the evaluation of the company's contribution to stakeholders, wealth in the long-term through the calculation of the economic value-added. Moreover, we believe that financial information is fundamental to assess M&A performance. Qualitative analyses risk to be reduced as a mere discursive exercise without the support of quantitative measurements (Garzella and Fiorentino, 2014).

Since we focus on target's performance, there is no problem with distorted evaluations caused by the chosen accounting treatment of goodwill, which is recognized by the acquirer in its annual reports. Nor are we concerned about the amount paid for the target company, which becomes a critical issue when we have to evaluate the acquisition's impact on the acquirer's fundamental value (Guest *et al.*, 2010). Emphasis is given to value-added and ROA measures which are not affected by the method of financing the merger. Our preference for financial measures indicates that we implicitly assume that substantial value is either captured or destroyed during the integration process, which is represented by financial figures.

Descriptive information on case studies

Fondalmec Spa

Fondalmec Spa, located in the province of Turin, was established in December 1976. The company owns several subsidiaries and is involved in the production of high-resolution mechanical products for the automotive industry. It is specialized in the making and assembling of aluminum parts (high-pressure casting, gravity casting and forged), forged steel and cast iron parts.

In May 2007, the company was acquired by the Indian investors of Endurance Technologies Pvt Ltd, through its Italian subsidiary Endurance Overseas Srl. Established in 1985 in India, Endurance Technologies Pvt Ltd manufactures and sells motor vehicle parts and accessories, recording a turnover of about 800 million US dollars. It manufactures aluminum products in 19 plants in India, Italy and Germany and is a component partner for automobile and two-wheel vehicles manufacturers. This acquisition represents a horizontal merger and was aimed at creating synergies in both the manufacturing and distribution processes.

In 2009, the investment in a domestic subsidiary was dismissed since it no longer met the strategic needs of the group. High extraordinary losses were recorded. Throughout 2010, the partnership with Indian investors led to the creation of two new production lines and a new plan of reorganization designed to improve the company efficiency and the services offered to customers was approved. Moreover, the key strategic decision to produce components in plastic material was made.

Fondalmec Spa still operates and is part of the Endurance Technologies group. Accounting data suggests that Fondalmec Spa is a growing company that records positive financial performance. However, the 2009 crisis had a negative impact on its development. Sales suffered, but in the following years, the company recorded a great improvement in sales thanks to its ability in obtaining new orders. Fondalmec Spa is characterized by a growing trend of investments in automation and creation of new production lines. They allowed the company to increase productivity and to develop new products with a higher technological content, which was essential in remaining competitive in the market.

Imes Spa

IMES Industria Meccanica e Stampaggio Spa (in short Imes Spa) is located in the Province of Varese. Established on May 25, 1996, Imes Spa manufactures hot-forged steel parts for a wide range of industries including the automobile, railway, tractor, lifting and transport, petrochemical and mining industries. On January 25, 2007, Imes Spa was acquired by the company Varroc Forging Italy Spa, which belongs to the Indian Group named Varroc.

The Varroc Group is a multinational supplier of plastic modules, engine valves, machined forgings and electrical systems for the automobile industry. Among its clients are: Ford, Fiat, GM, Suzuki, Tata Motors and others. It recorded more than one billion US dollars in sale revenues in 2012, and currently operates in ten countries and has 35 manufacturing plants and eight development centers. Thus the acquisition was designed to reinforce its metallic division and to obtain more expertise on the upstream phase of the production process.

Since 2004, before the acquisition, Imes Spa has been carrying out a process of expansion through acquisitions as demonstrated by the goodwill reported in the company's non-current assets. After the arrival of Indian investors, Imes continued its development process by acquiring another company in 2007. In January 2008, Varroc Forging Italy Spa (the parent company) implemented a reverse merger with its subsidiary Imes Spa. The operation was mainly financed by bank loans. This negatively impacted the net income for the year 2008.

Imes Spa is still controlled by Varroc Group. However, its ROE signaled a decrease in profitability after the reverse merger. There is no clear trend with reference to sales. The year 2010 represents the most critical year, but the company seems to have recovered itself to previous performance levels.

Cemp Srl

Established in September 1999, this company is located in the province of Milan and produces a wide range of electric motors – especially for hazardous areas including flameproof motors with brakes – and electric pumps for printing machines and "non-sparking" motors. Furthermore, Cemp provides customers with consulting services.

At the end of November 2007, 100 percent of Cemp was acquired by the Indian ABG Group through the company Abbeyavale Hodings Limited. ABG is a large multinational conglomerate listed on the Bombay stock exchange; with a total revenue of approximately 40 billion US dollars in 2012, and over 136,000 employees which operate in 36 countries. Its headquarter is in Mumbai and it is involved in several sectors, including aluminum production, power generation, chemicals, primary metal and fabricated products, coal mines, extrusions, telecommunications and textile. At the time of the acquisition, Cemp owned several subsidiaries located in France and Germany. Since the acquirer and the target belong to the same industry, the purchase of Cemp can be classified as a horizontal acquisition.

Today Cemp Srl still operates under the control of the ABG Group. Sales record a positive trend as well as the company's capability to create value-added. From the Management Reports and the Notes to the Accounts, we know that the increase in sales was a direct consequence of the Board's strategy aimed at strengthening the company presence in a few strategic sectors and a result of the product range's expansion. Moreover, export sales were particularly significant and the company's internationalization moved from the European Union toward Eastern countries. On the contrary, company profitability is falling. First it suffered from the reverse merger that occurred in 2008, which was financed recurring to bank loans and debts with owners. Second, ROE suffered from a decrease in sales after the worldwide financial crisis. Nevertheless, ROA is always positive and indicates that managers are capable to generate adequate returns from the company's core business.

Giuseppe Bellora Spa

Giuseppe Bellora Spa is located in the province of Varese. It was founded in 1946 although its origins date back to 1883 when it was named Bellora and Careghini. The company is a household linen manufacturer (i.e. towels, sheets, bathrobes) and is positioned in the upper/luxury segment. Before the acquisition, Bellora was the holding company for a group of subsidiaries operating in different phases of the production chain; from the process of finishing fabrics to the distribution of finished products. However, its main investments were aimed at increasing its retail channels, while several production processes were outsourced.

In February 2007, the Indian corporation Himatsingka Seide Ltd acquired 70 percent of the company shares and there was a simultaneous increase in share capital of about €4 million. Himatsingka Seide Ltd is a vertically integrated textile design and manufacturing group, founded in 1985. It manufactures and distributes home textile products (bed linen, drapery and upholstery), employing about 5,000 people. It is listed on Bangalore Stock Exchange and operates in Asia, Europe and North America. Although Himatsingka Seide Ltd has a longer tradition in silk production compared to Bellora's specialization in cotton, the merging partners are similar because they both operate in the production and retailing of high-quality textiles. At the time of acquisition, the Indian company had a worldwide-developed sale channel which was perfectly suited to sell Bellora products and brands abroad. Rationalization in distribution was pursued with the closing of several commercial subsidiaries of Bellora.

Giuseppe Bellora Spa is still controlled by Himatsingka Seide Ltd. However, its post-merger financial performance was extremely insufficient. Both ROE and ROA recorded negative values. Sales and the value-added also decreased. Results should be evaluated considering that Bellora faced important restructuring operations during the observation period, which probably influenced both the productive and commercial structure of the company and the group composition. The sales increase in 2008 is explained by the expansion of the product range supplied by the parent company in India. However, in the following years sales did not reach the same level as in the past.

Paioli Meccanica Spa

Paioli is located in the province of Bologna. Since 1998 it has been engaged in the design, manufacture and marketing of spare parts for all forms of transport vehicles; more specifically components for bicycles, motorcycles and scooters. Its core business is the production of motorcycle suspensions.

In March 2007, the multinational Endurance Technologies Pvt Ltd acquired a 40 percent share of Paioli Meccanica Spa with the goal of obtaining know-how and technology from the Italian partner. Also in this case, the target and buyer operate in the same sector. The partnership deteriorated in December 2009, when the worldwide economic crisis negatively impacted both the Italian and Indian players, preventing the development of synergies. In 2010, because of the ongoing crisis negatively affecting the motorbike sector, Paioli's shareholders opted for the liquidation of the company whose activities ceased at the end of 2013.

Financial data indicates that the year 2009 represents a turning point for the company management. From the annual report we know that customers started asking to either postpone or cancel orders from September 2008 and onward. Most of them were located in France and Spain (about 75 percent of Paioli's production is exported), which were also the foreign markets most affected by the worldwide financial crisis. This decline in orders generated a net loss of €−3,042,472 in 2009.

Nuova Renopress Spa

The company, located in the province of Bologna, was founded in 1996. It develops and produces die-casted items. It provides components such as starter housing, throttle valve housing and generators for the automotive sector and other motor components for the scooter and motorcycle sector.

In 2006, Indian investors from the multinational Endurance Technologies Pvt Ltd acquired 51 percent of Nuova Renopress Spa, however, they neither managed nor controlled the company because of a previous standstill agreement with Italian shareholders. Only in March 2007, when the Indians acquired 100 percent of the share capital, a new management arrived. In this case, Endurance Technologies carried out a horizontal acquisition.

The Indian leadership did not bring positive financial results. Because of uncertain trends in the industry and the persistent decline in sales in the automotive sector in Europe in 2008 and 2009; the Nuova Renopress Spa Board of Directors decided to stop production in September 2009 and sold 100 percent of the company's share capital to Foundry Will Srl, an Italian company located in Turin.

The company's Management Reports indicate that with the arrival of the Indian investor, Nuova Renopress Spa was involved in an important process of corporate reorganization designed to improve business performance. However, such renovation collided with a drop in demand. The company could not reach its full production capacity, therefore, it could not take full advantage of the benefits from restructuring, which compromised the attainment of profits and financial balance leading to the winding up of Nuova Renopress Spa.

Diaspa Spa

Diaspa Spa is a company that has been located in the province of Monza since 1969. It is engaged in the production and sale of antibiotics or other basic products for the pharmaceutical and chemical industry. Since 2004 it has been a subsidiary of the Euticals Group.

In 2006, Euticals sold 51 percent of the share capital of Diaspa Spa to Inalco Spa, which stopped activities and subsequently conveyed the business branch to Strides Italia Srl – a vehicle company 100 percent owned by the Indian Group Strides. The deal took place in August 2007. All employees, credits, debits, technical resources and know-how of Diaspa Spa were transferred to Strides Italia Srl, then Diaspa Spa was placed into a voluntary winding-up.

The target and buyer operate in the same sector. The Indian investor is a multinational pharmaceutical company founded in 1990, with more than 1,400 employees in India, Africa and Europe, listed at Bangalore Stock Exchange, with a turnover of about 400 million US dollars. However Strides did not aim to continue production. Its interest in Diaspa Spa was related to the acquisition of the company's US FDA approved fermentation facility located in Italy.

Financial data indicates that the economic situation of Diaspa Spa already began to deteriorate in 2005, when net profit assumed a negative value of €–8,348,864. The main cause of the decline in operating results was the concentration of sale orders in one long-term customer, which terminated a supply contract. This caused a relevant reduction of sales in 2005.

The strategies put in place to overcome the crisis in 2006, such as the creation of new products, had no positive impacts on business performance. Moreover, this situation deteriorated because of the concurrent increase in production costs. These circumstances led to the dismissal of the business in 2007, when the technical resources of Diaspa were conveyed to the foreign investor. Unfortunately, also under the name of Strides the company did not perform well, which ended up with a declaration of bankruptcy in 2011.

Men's Club Spa

The company, founded in 2000 and originally known as New Men Srl, works in the clothing industry. It is specialized in the manufacturing of shirts, polo's, T-shirts, pants and ties. The production process is entirely done in Italy and the company directs its product to a high-medium clientele level.

Men's Club Spa was created in December 2006 by Indian (67 percent) and Italian (33 percent) investors as an "empty box" designed to acquire the pre-existing New Men Srl. The acquisition was finalized in 2007. This was a horizontal acquisition since the Indian buyer, Morarjee Textile Ltd, operates in the same sector as the target company. Morarjee Textile Ltd is part of the Ashok Piramal Group and is an important player in premium cotton shirting fabric and high fashion printed fabric with 50 million US dollars in sales.

The pre-existing New Men Srl was characterized by negative economic results derived from difficulties in its core business. Income from operations were deteriorating because of a drop in orders from Italian and European customers and increasing production costs. Moreover, the strong competition between companies from Eastern countries represented an important threat. However, the arrival of a new management appointed by Indian investors failed to reverse this negative trend. Thus, Indian investors decided to put the company into liquidation at the end of 2009 and sold it to a company named Club Moda Srl in 2011. With that purchase the Men's Club brand returned to Italian operators.

Financial performance of the target companies

Post-merger survival of the targets

One possible method for identifying M&A success or failure is to verify if the target company has been dismissed or if it is still owned by the foreign investors. As summarized in Table II, four companies are still run by Indian investors. The other remaining four companies can all be labeled as failures. Paioli Meccanica and Diaspa were terminated, while Nuova Renopress and Men's Club were sold because they were unproductive investments.

Continuation or disinvestment of the target company does not seem to be associated with the relative size of targets when compared to their buyers, since all eight Italian companies are unlisted medium-sized businesses acquired by large multinationals. A minor difference appears with reference to the average size of the retained target companies. These register a higher average turnover, which reached about €35 million in 2005, compared to the four dismissed companies recording an average turnover of about €15 million in the same year. Also pre-deal conditions look different to some extent. The group of companies retained is composed of three organizations out of four recording positive values of operating income and net profit in the years before the acquisition. They also present an increase in turnover before the merger, while discharged targets all show a decline in turnover and economic losses for the whole period before the deal.

The industry type is not associated with different outcomes since successful acquisitions and divestitures are equally distributed in all sectors investigated with the case studies. Relatedness seems to be irrelevant as all case studies refer to related partners. While not fully relying on two-digit SIC codes (Limmack, 1997), we integrated this information with the description of company core businesses provided by company web sites and international databases (i.e. Bloomberg and Zephyr). Results suggest that acquisitions are mainly horizontal mergers made by Indian investors to acquire a company specialized in the manufacturing of specific components or articles.

Finally, the different rationales of acquisitions do not seem to be associated with a different destiny. The search for economies of scale and scope is declared in both

			Performance trend after the merger's year			
Company name	Actual status	Foreign ownership	Sales	ROA	ROE	Gross operating value-added
Fondalmec Spa	Active	100%	Up	Positive	Positive	Value creation increases
Imes Spa	Active	100%	Up	Positive	Negative	Increases and decreases in value
Cemp Srl	Active	100%	Up	Positive	Negative	Value creation increases
Giuseppe Bellora Spa	Active	70%	Down	Negative	Negative	Value creation decreases
Paioli Meccanica Spa	Liquidation	40%	Down	Alternating	Negative	Value creation decreases
Nuova Renopress Spa	Sold	100%	Down	Negative	Negative	Value is destroyed
Diaspa Spa	Bankruptcy	100%	Down	Negative	Negative	Value is destroyed
Men's Club Spa	Sold	67%	Down	Negative	Negative	Value is destroyed

Table II. Target's financial performance after the acquisition successful, i.e. Fondalmec, and less successful, i.e. Bellora, mergers. Similarly, acquisitions that are performed to obtain technological expertise may lead to different outcomes, as demonstrated by the different results of Imes, Paioli Meccaninca and Diaspa.

A clearer picture of the Indian investment's impact on the target's financial performance emerges from data provided in the Appendix.

The case studies analyzed, indicate that the arrival of foreign investors does not lead to an improvement in profitability. Fondalmec is the only company that records net profits and an increasing ROE after the merger, while all other companies report constant losses. Over time, annual losses overcome the company's equity, which becomes negative. This occurs in the four dismissed companies. Thus, in these cases the ROE calculation is not displayed since it is meaningless.

A different consideration is necessary when referencing the buyer's impact on management's efficiency in using company's assets and sales. In fact, the foreign proprietorship is associated with a positive ROA and an increase in sales in three companies (Cemp, Imes and Fondalmec), which are also the companies still controlled by Indian MNEs. Bellora is an exception since foreign owners continue to invest in this company even if it is recording negative performance. In the remaining four cases, which corresponds to disinvestments, the turnover decreases over time and operations perform so badly that the operating income severely declines or becomes negative.

Information on profit margin and the asset turnover ratio usually help us understand where increases or decreases in ROA come from. In the case studies analyzed here, we see that Fondalmec achieved an increase in both the profit margin, calculated as operating income divided by sales, and the volume of trade compared to the capital employed, calculated as net sales/assets. On the contrary, Cemp and Imes were not able to increase earnings from the capital employed. We checked for goodwill, related to the reverse acquisition occurred in these two cases, but results did not change since both companies were not able to improve their efficiency in asset usage. Similarly, we did not find significant improvements in profit margins, which arise when a company reduces its expenses or is able to increase sale prices. Attention should be paid when analyzing the capital turnover of the four dismissed companies. In these cases, the capital turnover may seem to augment, but the effect is merely the consequence of asset disposals made in order to get liquidity before selling the target.

To strengthen our results we decided to check for possible impacts caused by external changes in the market conditions. Thus, we adjusted targets' returns against the performance of their peers located in Italy. In other terms, we adjusted our results for industry and size using the 'Standard Peer Group' function in Aida dataset, which constructs a group of benchmark companies for each individual target. These benchmark companies belong to the same sector and have a comparable turnover to comply with the criteria proposed by Lu (2004), Powell and Stark (2005) and Duso *et al.* (2010). Changes in the performance measures displayed in Table III, occurred over time, are then expressed as:

$$\text{Change in } ROA\% = \left(ROA_{t+2} - ROA_{p+2}\right) - \left(ROA_{t-2} - ROA_{p-2}\right)$$

where ROA_{t+2} and ROA_{t-2} represent the return on assets of the target company two years before and two years after 2007 respectively, and ROA_{p+2} and ROA_{p-2} represent the average return on assets of peer companies at years t+2 and t−2 respectively.

Findings indicate that only the four retained companies record a positive impact on ROA. Moreover, they confirm that Fondalmec is the only company whose performance improve from the arrival of Indian investors.

Value-added creation and distribution

In order to verify whether target companies loose their capability to generate and distribute economic value to stakeholders after the acquisition, we calculated both the operating and the net value-added as described in Table IV.

Results indicate that Fondalmec Spa is the only company whose value-added increases before and after the acquisition, to reach a maximum value of €15,008,213 in 2011. With reference to Cemp Spa, data indicates that value-added increased from 2004 to 2007; and although it gradually declined after the acquisition, it still recorded positive values. Imes and Bellora are two interesting cases of surviving companies that were experiencing a downturn in wealth creation before the acquisition to then recover it afterwards. Imes' value-added decreased from €9,256,976 in 2004 to €5,771,704 in 2006. After 2007, the trend reversed, reaching a value-added of €7,906,700. However, the company management achieved discontinuous results. In the case of Bellora, the company value-added began to grow after the acquisition in 2007. However, it never returned to its previous amounts.

In the companies Paioli Meccanica, Nuova Renopress and Men's Club, value-added production decreased both before and after the acquisition. Moreover, after the acquisition we record negative value-added, thus indicating that value was actually destroyed and not created. The Diaspa case is the most critical, because the company records a steady negative trend as well as negative figures of value-added both before and after the acquisition.

When value is created, it is primarily assigned to the company's employees. As indicated in Figure 1, staff remuneration absorbs between a minimum of 65 percent and a maximum of 122 percent of value-added in Cemp. In Bellora, employees absorb an average of 150 percent of the company's wealth, without considering the 2006 values in the calculation. Similarly, in Nuova Renopress the portion of value-added intended for employees is close to 100 percent with a maximum value of 158 percent.

In three companies, this relevant flow of wealth distribution is partially explained by an increase in the number of employees. Fondalmec, Cemp and Imes, to a lesser extent, employ additional workforce to sustain their sales growth. Within the remaining companies, employees are not fired, even though sales decrease and significant losses are recorded. Thus, employees benefit from business progression even when the company risks its survival. The year before divestiture is the only time we can observe

	ROA (%)	ROS (%)	ROE (%)	Sales	Net profit	Gross operating value added	Total assets
Fondalmec Spa	5.33	0.32	21.33	6,456	1,073	4,247	−33,503
Imes Spa	0.18	3.36	−0.94	−6,983	−1,578	−2,979	2,199
Cemp Srl	3.34	4.07	−95.36	−1,073	−167	672	−5,489
Giuseppe Bellora Spa	1.90	−2.77	−10.68	−9,051	−1,084	−2,898	−9,624
Paioli Meccanica Spa	−15.18	−10.10	ns	−3,494	−488	−2,709	−11,902
Nuova Renopress Spa	−189.03	−179.81	ns	−7,288	−1,810	−6,805	−24,014
Diaspa Spa	−42.11	−302.47	ns	−4,837	−5,037	−4,639	−13,641
Men's Club Spa	−23.51	−25.80	ns	−4,685	−4	−1,304	−4,342

Table III. Acquisition performance

Table IV.
Value-added creation

Cemp Srl	*2004*	*2005*	*2006*	*2007*	*2008*	*2009-2010*	*2011*
Revenues and other non-operating revenues	14,420.401	15,907.205	18,636.350	21,986.091	24,731.614	26,011.876	21,771.848
Operating costs	9,953.286	10,816.775	12,762.531	15,012.461	17,032.829	17,223.976	14,786.577
Gross operating value added	4,467.115	5,090.430	5,873.819	6,973.630	7,698.785	8,787.900	6,985.271
Amortization and depreciations	2,283.789	2,260.149	2,136.690	2,061.584	3,079.627	3,930.376	3,144.871
Net operating value added	2,183.326	2,830.281	3,737.129	4,912.046	4,619.158	4,857.524	3,840.400
Extraordinary items	−102.781	−48.325	−2.921	569.625	−20.353	−691.740	−729.092
Net overall value added to allocate	2,080.545	2,781.956	3,734.208	5,481.671	4,598.805	4,165.784	3,111.308
Imes Spa	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Revenues and other non-operating revenues	51,614.022	58,242.229	30,786.742	46,211.415	52,640.252	56,462.719	28,333.232
Operating costs	35,769.981	40,797.877	22,199.999	34,694.591	38,768.361	42,558.071	20,173.195
Gross operating value added	15,844.041	17,444.352	8,586.743	11,516.824	13,871.891	13,904.648	8,160.037
Amortization and depreciations	7,730.977	9,508.110	2,767.307	3,629.135	8,940.505	4,673.248	4,796.833
Net operating value added	8,113.064	7,936.242	5,819.436	7,887.689	4,931.386	9,231.400	3,363.204
Extraordinary items	1,143.912	280.848	−47.732	19.011	85.403	404.112	−3.521
Net overall value added to allocate	9,256.976	8,217.090	5,771.704	7,906.700	5,016.789	9,635.512	3,359.683
Giuseppe Bellora Spa	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Revenues and other non-operating revenues	29,166.484	20,939.680	22,328.276	6,284.223	25,424.401	20,058.814	18,766.650
Operating costs	22,288.853	15,768.833	18,812.566	5,028.494	19,572.985	15,724.098	14,462.411
Gross operating value added	6,877.631	5,170.847	3,515.710	1,255.729	5,851.416	4,334.716	4,304.239
Amortization and depreciations	638.881	1,458.177	2,047.188	135.002	969.999	1,087.205	1,029.438
Net operating value added	6,238.750	3,712.670	1,468.522	1,120.727	4,881.417	3,247.511	3,274.801
Extraordinary items	127.947	2,528.018	−708.776	106.309	−1,991.943	−325.820	−57.096
Net overall value added to allocate	6,366.697	6,240.688	759.746	1,227.036	2,889.474	2,921.691	3,217.705
Fondalmec Spa	*2004*	*2005*	*2006*	*2007*	*2008/2009*	*2010*	*2011*
Revenues and other non-operating revenues	49,141.988	50,688.682	71,882.560	76,702.059	88,335.647	68,206.167	75,626.740
Operating costs	39,876.774	39,771.612	58,528.331	59,118.488	68,305.505	51,021.037	56,962.410
Gross operating value added	9,265.214	10,917.070	13,354.229	17,583.571	20,030.142	17,185.130	18,664.330
Amortization and depreciations	3,327.312	2,771.887	2,265.889	3,874.070	4,780.977	3,066.057	3,690.709
Net operating value added	5,937.902	8,145.183	11,088.340	13,709.501	15,249.165	14,119.073	14,973.621
Extraordinary items	17.574	−41.533	11.285	25.811	−4,803.575	104.756	34.592
Net overall value added to allocate	5,955.476	8,103.650	11,099.625	13,735.312	10,445.590	14,223.829	15,008.213

(*continued*)

Men's Club Spa	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Revenues and other non-operating revenues	5,569.196	4,166.376	3,196.356	3,175.728	1,862.185	799.121	267.260
Operating costs	4,236.192	3,546.211	3,179.489	2,755.665	1,975.992	924.570	265.436
Gross operating value added	1,333.004	620.165	16.867	420.063	−113.807	−125.449	1.824
Amortization and depreciations	83.805	79.561	72.893	86.986	124.495	99.383	0
Net operating value added	1,249.199	540.604	−56.026	333.077	−238.302	−224.832	1.824
Extraordinary items	23.044	10.242	141.353	1.198	14.454	144.946	56
Net overall value added to allocate	1,272.243	550.846	85.327	334.275	−223.848	−79.886	1.880
Diaspa Spa	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Revenues and other non-operating revenues	20,277.661	11,420.851	9,395.836	3,058.562	8,156.536	6,998.090	1,818.553
Operating costs	13,225.302	10,050.766	7,602.813	3,662.941	8,966.866	8,285.636	3,186.160
Gross operating value added	7,052.359	1,370.085	1,793.023	−604.379	−810.330	−1,287.546	−1,367.607
Amortization and depreciations	1,454.311	3,117.960	5,706.515	332.052	536.558	7,107.541	252.000
Net operating value added	5,598.048	−1,747.875	−3,913.492	−936.431	−1,346.888	−8,395.087	−1,619.607
Extraordinary items	226.131	−1,040.829	−71.808	478	4,892.247	−91.625	−39.641
Net overall value added to allocate	5,824.179	−2,788.704	−3,985.300	−935.953	3,545.359	−8,486.712	−1,659.248
Paioli Meccanica Spa	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Revenues and other non-operating revenues	29,968.261	26,761.579	27,304.531	29,041.374	25,886.481	14,584.776	11,314.290
Operating costs	23,930.106	21,406.646	22,939.944	24,059.640	21,760.470	13,655.018	8,727.588
Gross operating value added	6,038.155	5,354.933	4,364.587	4,981.734	4,126.011	929.758	2,586.702
Amortization and depreciations	693.106	734.718	681.506	654.475	638.111	772.254	736.861
Net operating value added	5,345.049	4,620.215	3,683.081	4,327.259	3,487.900	157.504	1,849.841
Extraordinary items	−668.201	−802.559	−1,108.369	−892.284	−68.042	−235.022	−25.483
Net overall value added to allocate	4,676.848	3,817.656	2,574.712	3,434.975	3,419.858	−77.518	1,824.358
Nuova Renopress spa	*2004*	*2005*	*2006*	*2007*	*2008/2009*	*2010*	
Revenues and other non-operating revenues	22,897.233	17,141.136	21,501.914	21,687.684	31,477.695	3,115.016	
Operating costs	15,501.635	10,893.984	15,128.624	14,965.652	23,916.076	3,474.245	
Gross operating value added	7,395.598	6,247.152	6,373.290	6,722.032	7,561.619	−359.229	
Amortization and depreciations	1,674.171	1,367.456	1,922.309	1,754.528	4,753.653	1,762.916	
Net operating value added	5,721.427	4,879.696	4,450.981	4,967.504	2,807.966	−2,122.145	
Extraordinary items	560.448	627.135	1,423.599	−200.783	2,675.198	−44.829	
Net overall value added to allocate	6,281.875	5,506.831	5,874.580	4,766.721	5,483.164	−2,166.974	

Table IV.

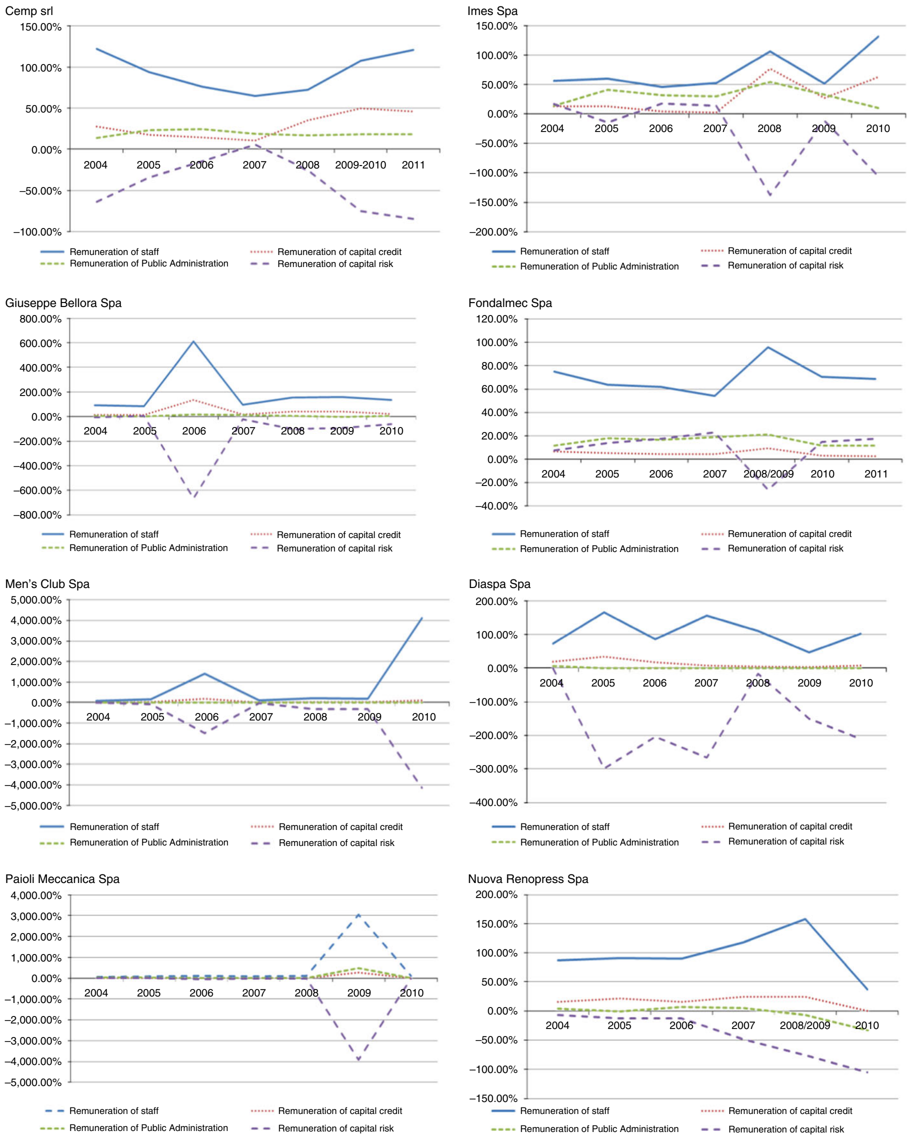

Figure 1.
Value added distribution

a massive workforce lay off. Providers of capital are also quite important. The remuneration of capital credit ranges from 4 to 12 percent in Fondalmec, while it reaches a higher level in companies with a high debt to equity ratio like Cemp, which distributes 49 percent of value-added to its funds' suppliers.

The Public Administration represents the third recipient, when companies record profits. In Fondalmec it absorbs about 25 percent of value-added created, while the portion which is distributed to the Public Administration ranges on average between 14 and 24 percent in Cemp and Imes. In all of the other cases, the portion distributed to the Public Administration is almost irrelevant.

Shareholders do not claim wealth created by the targets. When the company records profit, like in the case of Fondalmec, the shareholder's wealth does not increase since profits are usually reinvested in the company – it occurred in 2004, 2005, 2008, 2010 and 2011. In most cases, there is no remuneration for shareholders who actually have to face economic losses, like in Diaspa's case.

Findings and conclusions

The first result, which emerged from the analysis of our case studies, is that Indian multinationals target Italian companies operating in the same sector. They do not aim to increase business diversification. Moreover we found a high level of industry relatedness, but potential synergies deriving from this similarity did not emerge in terms of increased firm performance. This seems to confirm that operating synergies, like those emerged in our case studies, are also the category of synergies that is most difficult to realize.

The examined acquisitions are not successful if we judge them in financial terms and adopting the target's perspective. However, we can positively evaluate the Indian's arrival in at least three out of the eight companies analyzed, because of the investor's capability to sustain increasing sales and positive returns from the capital employed and the additional jobs created. In four out of eight case, the Indian proprietorship still continues to manage the business, suggesting the presence of a long-term strategy. Thus, despite scarce profitability in the post-merger phase, case studies indicate that Indian investors do not acquire Italian companies to merely obtain a brand or some specific technology and then close them down.

The results of value-added creation are not encouraging. In the years following the Indian acquisitions, two of the four dismissed companies recorded a negative value-added as operating costs were higher than revenues, and most of the other companies showed a declining trend in value-added creation. Nevertheless, when a company is able to maintain similar results to those of the past, it can be judged positively. Improvements in value-added creation in 2008 and 2009, the years of the worldwide financial crisis, might be considered an unrealistic expectation.

Since all of the companies, except one, recorded economic losses, it is clear-cut that Indian shareholders never benefit from the value-added creation of their target. The most important beneficiaries of wealth generated by the analyzed targets are employees. Sometimes personnel costs absorb more than 100 percent of value-added, negatively impacting the shareholder's remuneration. In some cases foreign shareholders had to provide additional capital risk during the period under observation to sustain operations. The charts displayed in Figure 1, show that there is a sort of trade-off between employees and the shareholder's remuneration, which are both represented by two lines with an opposite trend.

To conclude this study suggests that media as well as local institutions and the host-country government should not address these foreign investors neither as saviors of local companies facing temporary financial difficulties nor as competitors stealing local sources of wealth. We cannot assess that Indian multinationals have inadequately managed organizations that were formerly profitable. These acquisitions did not reduce stakeholders' wealth for the benefits of the shareholder's. They did not have a negative impact at the local level, nor did they destroy jobs, at least in the short term. Moreover, we have to consider that the dismissed companies already showed a decreasing trend in value-added creation before the foreign acquisition.

From a theoretical point of view, this study contributes to the recent stream of M&A literature focusing on emerging market firms by highlighting the possible impacts caused by these foreign investors on western companies. Since it adopts a rather longitudinal perspective, it aims to assess the long-term impact of foreign acquisitions which is not captured by acquisition announcement returns. Moreover, it tries to provide a more holistic view of the possible takeover's benefits by considering both shareholders and stakeholders expectations and using a plurality of measures, i.e. traditional profitability ratios together with measures of value-added creation.

Observations emerging from this explorative research are limited to the analyzed case studies. Thus, it could be of great value to enlarge the number of companies investigated in the near future, including targets acquired by Russian, Chinese and Brazilian investors. Another limitation refers to the methodology used. Unfortunately it was not possible to collect additional information from the key subjects of the organizations involved (i.e. CEOs of the target and the buyer) to identify specific strategic objectives associated with the deal and to reveal how they evaluate merger's outcomes. Direct interviews could have provided details on the type of synergies developed and possible new capabilities created after the merger. A further step of this research regards the possibility to interview suppliers, clients, representatives of employees and local institutions, since they can help to identify their specific point of view on social and economic impact of the foreign investor's arrival. Lastly, performance of the target companies could be compared with similar Italian firms acquired by European investors to check whether a different ownership, characterized by cultural similarity, may influence post-acquisition performance.

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Appendix

Table AI.
Key financial results of target companies

	2004	2005	2006	2007	$n+1$	$n+2$	$n+3$	$n+4$
Cemp								
Sales revenues	14,623.429	15,591.498	18,147.925	21,644.972	24,360.318	20,638.096	21,221.509	25,010.387
Trend	100	107	124	148	167	141	145	171
Operating income	−355.343	224.507	893.658	1,372.827	1,280.505	304.689	69.069	1,787.107
Net income after tax	−1,322.922	−956.105	−542.626	321.033	−1,151.351	−2,511.867	−2,642.131	−693.859
ROE (%)	−31.04	−23.86	−15.67	8.48	−44.76	−165.84	−147.56	−37.57
ROA (%)	−1.64	1.11	4.48	6.98	3.58	1.17	0.24	7.02
Operating income/sales (%)	−2.43	1.44	4.92	6.34	5.26	1.48	0.33	7.15
Sales/assets (*n*)	0.67	0.77	0.91	1.10	0.68	0.64	0.74	0.98
Imes								
Sales revenues	51,457.336	57,710.064	30,649.074	45,711.761	52,600.667	56,899.436	28,315.029	52,796.350
Trend	100	112	60	89	102	111	55	103
Operating income	2,870.579	2,981.345	3,185.779	3,723.373	−407.929	4,266.856	−1,071.363	3,428.000
Net income after tax	1,518.971	−1,205.348	1,005.082	1,105.838	−6,885.057	−1,143.399	−3,550.204	81.690
ROE (%)	7.07	−6.77	5.34	4.44	−55.83	−10.22	−46.48	1.06
ROA %	4.97	5.35	6.87	8.61	−0.52	5.98	−1.62	4.93
Operating income/sales (%)	5.58	5.17	10.39	8.15	−0.78	7.50	−3.78	6.49
Sales/assets (*n*)	0.89	1.04	0.66	1.06	0.67	0.80	0.43	0.76
Fondalmec								
Sales revenues	44,658.475	44,465.366	66,160.816	73,187.201	61,298.824	64,952.684	72,495.084	77,739.023
Trend	100	100	148	164	137	145	162	174
Operating income	1,479.095	2,994.534	4,220.581	6,220.014	3,751.031	4,072.108	4,681.335	5,187.250
Net income after tax	445.159	1,102.111	1,940.677	3,159.054	−3,523.919	2,113.454	2,608.847	2,861.120
ROE (%)	4.43	9.89	14.84	25.22	−40.72	23.57	26.93	24.15
ROA (%)	3.72	6.72	8.53	11.37	8.62	8.37	10.03	8.79
Operating income/sales (%)	3.31	6.73	6.38	8.50	6.12	6.27	6.46	6.67
Sales/Assets (*n*)	1.12	1.00	1.34	1.34	1.41	1.34	1.55	1.32

(*continued*)

	2004	2005	2006	2007	$n+1$	$n+2$	$n+3$	$n+4$
Giuseppe Bellora								
Sales revnues	26,586.015	21,219.405	22,287.235	23,526.723	19,926.826	19,188.821	19,330.091	16,572.230
Trend	100	80	84	88	75	72	73	62
Operating income	510.220	−1,408.867	−3,191.315	299.249	−1,355.461	−1,122.626	−404.835	−261.697
Net income after tax	−506.360	213.353	−5,057.369	−2,563.680	−2,745.971	−2,043.222	−1,561.524	−1,043.395
ROE (%)	−8.60	2.81	−171.19	−39.95	−39.68	−33.41	−27.87	−16.67
ROA (%)	1.31	−3.51	−8.84	0.81	−3.96	−3.57	−1.33	−0.92
Operating income/sales (%)	1.92	−6.64	−14.32	1.27	−6.80	−5.85	−2.09	−1.58
Sales/assets (*n*)	0.69	0.53	0.62	0.64	0.58	0.61	0.63	0.58
Nuova Renopress								
Sales revenues	22,897.233	17,117.902	21,242.795	21,424.506	20,240.460	7,501.220	1,720.746	
Trend	100	75	93	94	88	33	8	
Operating income	227.549	−149.079	−820.189	−294.522	−2,866.224	−3,315.386	−2,932.572	
Net income after tax	−426.766	−661.310	−736.869	−1,759.970	−3,914.121	−340.116	−2,270.139	
ROE (%)	−23.39	−48.89	−119.67	−1,046.87	–	−60.57	–	
ROA (%)	0.79	−0.69	−4.67	−1.54	−21.63	−51.99	−200.20	
Operating income/sales (%)	0.99	−0.87	−3.86	−1.37	−14.16	−44.20	−170.42	
Sales/assets (*n*)	0.79	0.80	1.21	1.12	1.53	1.18	1.17	
Paioli Meccanica								
Sales revenues	28,333.978	25,544.410	26,638.529	28,383.466	25.549,099	15.464,074	11.135,949	7,373.255
Trend	100	90	94	100	90	55	39	26
Operating income	2,198.727	1,745.325	691.102	1,201.933	143.405	−2,204.272	57.582	714.401
Net income after tax	363.198	−66.972	−1,083.078	−611.361	−462.999	−3,042.472	−210.827	504.896
ROE (%)	10.18	−1.91	−44.81	−24.37	−22.63	–	–	–
ROA (%)	11.91	9.52	4.00	6.71	0.94	−27.71	1.50	31.97
Operating income/sales (%)	7.76	6.83	2.59	4.23	0.56	−14.25	0.52	9.69
Sales/Assets (*n*)	1.53	1.39	1.54	1.58	1.68	1.94	2.90	3.30

(*continued*)

Table AI.

Table AI.

	2004	2005	2006	2007	$n+1$	$n+2$	$n+3$	$n+4$
Diaspa								
Sales revenues	19,236.745	14,478.450	9,888.895	1,901.244	6,773.186	7,428.240	1,166.179	1
Trend	100	75	51	10	35	39	6	0
Operating income	1,279.128	−6,367.263	−7,467.541	−2,408.745	−5,290.173	−12,379.398	−3,321.848	−1,323.419
Net income after tax	4.251	−8,348.864	−8,127.164	−2,484.267	−579.405	−12,781.674	−3,503.225	2,982.637
ROE (%)	0.07	−190.00	> −1,000	−93.97	−18.64	–	–	−29.26
ROA (%)	3.48	−25.25	−35.58	−18.54	−33.51	−134.44	−53.16	−22.54
Operating income/sales (%)	6.65	−43.98	−75.51	−126.69	−78.10	−166.65	−284.85	> −1,000
Sales/assets (*n*)	0.52	0.57	0.47	0.15	0.43	0.81	0.19	0.00
Men's Club								
Sales revenues	4,991.328	4,398.497	4,178.979	2,478.271	2,067.544	1,053.990	223.159	178.071
Trend	100	88	84	50	41	21	4	4
Operating income	116.932	−278.155	−1,258.077	−30.868	−688.910	−366.601	−75.591	−876.253
Net income after tax	−83.318	−430.013	−1,276.651	−72.548	−728.216	−244.326	−77.662	−876.247
ROE (%)	−82.18			−3.76	−60.72	−25.59	−8.85	> −1,000
ROA (%)	2.17	−5.57	−35.90	−0.92	−30.47	−26.67	−6.51	> −1,000
Operating income/sales (%)	2.34	−6.32	−30.10	−1.25	−33.32	−34.78	−33.87	−492.08
Sales/assets (*n*)	0.92	0.88	1.19	0.74	0.91	0.77	0.19	8.08

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1. ReddyK.S. K.S. Reddy XieEn En Xie HuangYuanyuan Yuanyuan Huang School of Management, Xi'an Jiaotong University, Xi'an, China . 2016. The causes and consequences of delayed/abandoned cross-border merger & acquisition transactions. *Journal of Organizational Change Management* **29**:6, 917-962. [Abstract] [Full Text] [PDF]