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HOW TO ENTER INTO INDIAN MARKET? FROM INBOUND & DOMESTIC ACQUISITIONS PERSPECTIVE – A REVIEW

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Abstract: Mergers and Acquisitions are the major sources of Foreign Direct Investment and one of the effective strategies for organisational expansion and restructuring. In India, Cross border Acquisitions have increased the inward flow of foreign investments significantly and will continue to remain one of the preferred ways for attracting international investments. One major area of research in Acquisitions is characterizing and predicting the quality of targets firms. This paper reviews the pre-acquisition characteristics of a firm that aid in predicting the apt takeover candidates while pursuing inbound deals. This work attempts to reveal the differences in pre-acquisition characteristics during cross-border and domestic takeovers that makes the deal either profitable or loss making. It also highlights the necessity for a different model for the Indian market when compared to the developed economies due to the structural differences in the Indian economy. The conjecture derived from the review is that firms from other nations favor those Indian firms that characterize good network connectivity, channel and voluminous assets suiting their long termstrategy to explore markets and brands. The research in Merger & Acquisitions occurring in Indian Market is still in infant stage, providing more opportunities to explore and study in various perspectives.

Keywords: Cross Border Acquisition, Domestic Acquisition, Target Firms, Indian Market, Emerging Economy

1. INTRODUCTION

Liberalization in the 1990's have opened up Indian markets for inbound investments in the form of Foreign Direct Investments (FDI). According to data from GoI, India has received an astounding 60.1 billion US Dollars' worth of FDI in the period 2016-17 (Raj Kumar Ray, 2017). Most of these FDI are in the form of cross border acquisitions whose cardinality and value of investment have been on the rising trend in India in the recent times. According to United Nations Conference on Trade and Development (UNCTAD) (Report dated: 8th June 2017), India has the high probability of being the highly sought target in foreseeable future owing to its attractiveness among Multi-National Companies for cross-border Mergers and Acquisitions (M&A). The report says "Foreign Multinational Enterprises (MNEs) are increasingly relying on cross-border M&As to penetrate the rapidly growing Indian market."

Since 2015, there have been numerous reforms initiated by Government of India specifically tailored to boost foreign investments. One of them includes the automatic approval route for capital intensive sectors such as defense, real estate and civil aviation. With initiative such as Digital India, Make in India, Smart city development, there is a positive outlook on the economy increasing inbound investments.Also, 87 FDI rules across 21 sectors have been relaxed from 2015 to 2017 to attract the inbound investors in the view of accelerating the nation's economic development and diminishing unemployment.All these factors have surged the value of the inbound deals from 8 billion USD to

22 billion USD (Foreign direct investment (FDI) in India, 2017).

Findings from an analysis on the countries that have been involved in M&A with India recently and the sectors that are highly prone to be selected as target firms present that Mauritius, Singapore, Japan, United Kingdom, Netherlands, United States, Germany, Cyrrus, France and U.A.E are highly interested in acquiring the Indian firms in sectors such as various services (Financial, Banking, R&D etc.), computer software and hardware, construction development, telecommunications, automobile, drugs and pharmaceuticals, trading, chemicals, power and hotel and tourism.

Hence, in future too, Mergers & Acquisitions (M&A) will continue to sustain and be a prominent and preferred strategy for firms investing in India through the FDI channel. Being a vital source of economic growth for the nation, there arises a need to meticulously understand the characteristics of target firm that would be preferred during inbound acquisitions. In this work, an attempt is made to review the target firm characteristics of inbound acquisitions in India from the perspective of the investors. Also, these characteristics of inbound acquisition target firms are compared and contrasted as against the characteristics of the domestic target firm acquisitions. However, only very few research studies are available specific to acquisitions that too in India and only negligible research has been done on inbound acquisitions in India, while considerable level of analysis is made on merger and acquisition together in developed countries.

In this paper, the main emphasis is made on acquisition, in which the acquirer company takes over another and clearly establishes itself as the new owner. Acquisition constitutes of two types viz., inbound and domestic acquisitions. Domestic acquisition refers to acquirer firm taking over a target firm within its own country whereas inbound acquisition denotes acquiring a target firm from a different country other than its own country. Inbound acquisitions are also referred as cross-border acquisitions. This study attempts to present the pre-acquisition performance characteristics of target firm in Indian market that are preferred for acquisition with specific attention to highlighting the differences in characteristics between the pre-acquisition criteria expected during an inbound and domestic acquisition. The study also reports the differences in characteristics of those firms that can be regarded as targets for acquisition and that cannot and/or should not be deemed as targets.

Pre-acquisition characteristics of a firm demonstrate the repute of the firm from various aspects prior to acquisition. Analysis on these characteristics helps the acquirer firm to understand the target firm better and aid in estimating the quantitative metrics related to benefits from acquisition (Barick & Kapil, 2018). There are notable variations in the outlook of an acquirer depending on whether the acquisition is inbound or domestic. In the context of an inbound acquisition, the buyer looks into the country level, industry level and firm level particulars of a target company. Earlier works in this field suggests that the key drive behind the inbound acquisition is the strategy of Market Entry wherein the foreign firms acquire efficient non-indigenous firms while the primary motivation of domestic acquisition is corporate control hypothesis wherein the firms invest in local poorly performing companies in order to accelerate their potential and competitiveness. In this study, the strategies followed by the acquirer firm in choosing the target firm is highlighted for both inbound and domestic acquisitions, with special mention to analyse if this strategy applies to Indian Market also or a different approach has to be followed.

The paper is structured as follows: Section 2 presents the pre-acquisition characteristics and performance of targets. It also highlights the similarities, differences and research gaps of these characteristics with regard to Indian Market. Section 3 concludes the paper by providing remarks on the research gaps in analysis of pre-acquisition characteristics and Section 4 provides future insights in this area of research.

2. ANALYSIS OF PERFORMANCE CHARACTERISTICS OF TARGET FIRMS PRE-ACQUISITION IN THE VIEW OF ACQUIRERS

This section provides a note on the factors adopted by the acquirer firms in choosing a domestic and cross-border target firm. Pre-Acquisition features and performance of typical target firms are presented in the following sub-section.

Understanding Acquirer's Viewpoint on Pre-Acquisition Characteristics and Performance of Targets Firms

Several factors influence Merger and Acquisition (M&A) and these need to be thoroughly studied and analysed as an initial step towards acquisition. This section presents various studies on the significant factors that need to be considered prior to acquisition. Primarily, acquisition motive of the acquirer firm, macro-economic factors, financial characteristics and size of the target firms, which play a key role in selection of firms for takeover are studied. Then, the characteristics of targets and non-targets, presenting the demarcation between the firms that are suited for take over and those that does not attract the acquirer, are highlighted. Subsequently, the differences between domestic and inbound acquisitions, in terms of pre-acquisition characteristics of the target, are presented. This paper also studies the factors that vary between developed and emerging economies in Merger &Acquisition. Finally, the pre-acquisition features are analysed in terms of Indian context.

Perception of Acquirer Motivation behind inbound and domestic acquisition

One of the major factors characterizing the Merger & Acquisition is the motivation behind the decision. Predominantly, there are two renowned contending motivations viz., (i) Corporate Control Hypothesis and (ii) Market Entry Hypothesis. Corporate Control Hypothesis states that companies that are not performing upto the required standards turn out to be takeover targets for the sake of synergy gains while Market Entry Hypothesis suggests that the companies venture into new market through acquisition for exploiting the outstanding market prospects.

Earlier studies report that the Market Entry Hypothesis inspires inbound acquisitions while the domestic acquisitions are driven by the Corporate Control Hypothesis. In other words, foreign firms acquire productive domestic companies with the notion of expanding their market while domestic acquirers target the poorly performing local companies in order to improve its productivity and proficiency.

In 2000, Holger Gorg (Holger Gorg, 2000) has studied the entry mode options for a foreign firm in a host market with asymmetric duopoly and found that in most cases, foreign acquirers prefer to acquire an existing domestic high technology firm, thus forming a duopoly with the other domestic low technology firm.

Firms in Japan prefer poorly performing native companies with high leverage ratio for domestic acquisitions while on the other hand, firms from other countries seek highly productive Japanese firms for cross-border acquisition (Kyoji Fukao *et al.,* 2008). In the same manner, investigation of numerous cross-border owned UK firms demonstrates that the firms owned by US show higher efficiency than that of those acquired from other non-UK countries. This has been due to the fact that US acquirers have invested only in the target firms which have already exhibited higher productivity (Criscuolo & Martin, 2009). Similarly in acquisition of banks, those banks that are cited high in the stock market gain more attention from the inbound acquirers while the poorly managed banks are favored by the local acquiring firms (Hermando et al., 2009). Yet another investigation on firms associated with banking sector also reveals that the banks exhibiting high competence remain a favorable target to be acquired by the foreign companies (Luman Zhan, 2014). To emphasize the above said hypothesis, another study claims that during pre-acquisition period of firms in emerging markets, target firms of domestic acquisitions exhibit lower performance in comparison with the cross-border acquisition targets (Peng Cheng Zhu *et al.,* 2010). Yet another study made on 288 firms from the financial services sector of India during the period 1997-98 to 2007-08 by utilizing logit model supports the market for corporate control hypothesis (Bhalla, P., 2011). Again, the fact that the acquirers different from that of the indigenous country of the targets favor those targets that exhibit high productivity and competitiveness for several years before acquisition is underlined (Bruce A. Blonigen*et al.*, 2013).

The logic behind favoring Market Entry Hypothesis for cross-border acquisitions is that abroad markets hold high information asymmetry about the native firms of other countries (La Porta *et al.,* 1997). They generally lack deep knowledge and experience in doing business in overseas market. They only have less access to important particulars and facts related to the valuation and business profile of firms in other countries. The cultural variations, language differences, political dissimilarities and nonconformity in financial systems pose a severe challenge for firms from other countries to venture a new initiative in a non-indigenous country. Hence, a preferred way to enter into markets of foreign countries and gain positive outcomes is to favor large, competent and well organized firms from the non-indigenous countries for cross-border acquisitions.

On the other hand, the intuition of supporting Corporate Control Hypothesis for domestic acquisitions is that firms when looking for acquisition targets within their own country characterize high networking, intellectual and communication advantage and possess in-depth knowledge of the legal and governance system than that of a non-native acquirer (Shimizu *et al.,* 2004). This makes it easy for the acquirers to identify target firms (in their indigenous nation) that do not possess efficient management system but is capable of exhibiting improvement if fixed and handled efficiently. These companies can be acquired at very low valuation by the domestic acquirers as they are aware of the exact particulars and profile of the target firm.

The pre-acquisition characteristics also involve certain other features of the target firm such as its macro-economic factors, financial characteristics, size etc.

Capturing the Buyers' Perspective of Macro-Economic Factors of the Targets

The buyers from cross-country look at various countries, level, firm level and industry level particulars while pursuing an inbound deal. Macro-economic factors of the target country are of high significance while making an inbound acquisition decision. Macro-economic factors are those that deal with the entire economy and affect a large population. They include factors such as inflation, economic output, unemployment, investment etc.

Empirical results of a study in 2007 reveals that the nation's level of financial openness, its macro-economic performance, investment environment, quality of its institutions and other global factors form the underlying factors that have high impact on cross-border M&As (Gus Garita and Charles Van Marrewijk, 2007). In 2012, it is re-emphasized that the macro-economic factors greatly impact the chance of a firm being a preferred target which in turn influences the cross-border acquisitions. Another investigation put forth that mode of entry, market power, prior acquisition experience, perspective of real options, characteristics of the host country, institutional factors and network characteristics act as driving forces for a successful M&A (Sergey Lebedev, Mike W. Peng, EnXie, Charles E. Stevens, 2015).

In context of China, the primary characteristics that are preferred during inbound M&As are the size and the profitability of the firm (HuanZou and Paul Simpson, 2008). Along with the reported characteristics, their intangible resources and intellectual capability also boost more cross-border acquisitions into their country. Another study on M&As in China from 1992 to 2013 reveals further macro-economic particulars that can affect the acquisitions. They include Gross Domestic Product (GDP), GDP growth rate, political stability and climate for foreign investment and its associated legal systems, inflation factors and exchange rate. It has been demonstrated that GDP, its growth rate, political stability, foreign investment related legal system and inflation factors such as expected inflation in six months and the realized inflation are statistically highly significant and exert a positive marked effect on the cross-border acquisition while exchange rate does not have any significance in this regard. The positive influence owing to inflation can be related to the fact that China is a developing country and the inflation steers the acquirers to look for chances outside the country(Wang). Subsequently, on examining the cross-border M&As in the context of UK firms, it has been identified that a few particulars of macro-economy affect the M&A positively while a few others influence it negatively. The variables impacting positively include Gross Domestic Product, broad money supply, stock prices and real effective exchange rate while the inflation rates and interest rates enforce a negative effect on cross-country M&As (Boateng *et al.,* 2014).

Macro-economies also influence the role played by the firms: whether it assumes the role of an acquirer or a target. Firms with deficient economies turn out to be acquisition targets while the firms exhibiting rich economies with high equity markets, Tobin-q and escalated currency values happen to be the acquirers (IsilErel *et al.,* 2012).

In addition to macro-economic factors, operating performance and size of the firms have a marked influence in being a preferred choice for the investors. These details are discussed subsequently.

Insight into Investors' Outlook on Operating Performance and Size of Target firms

Operating Performance of the target firms also play a key role during M&A analysis. The frequently used financial parameters constitute book value of assets, debt or equity, cash or total assets, profit or net worth, price or book value, profit margin and assets utilization. However, financial ratios used to represent these raw variables vary among researchers. For instance, book value of assets has been used instead of size variables by Palepu (Palepu 1986),while sales parameter substituted size variables in the work undertaken by Chen and Su (Chen & Su 1997)whereas these variables have been replaced with market capitalization by Barnes (Barnes, 2000). However, in 2000, these financial ratios have been found to be less effective in prediction of target firms and in deducing that the acquisition of a particular target firm is more profitable when compared to the firms that are not chosen for acquisition (Sorensen, 2000). Then, Industry Relative Ratio (IRR) has been formulated (Platt & Platt, 1990) to replace the financial ratios (grounded on raw financial data). This measure is expected to control the stability issues. It is computed through dividing the annual financial ratio of the target company for a specific year by the mean financial ratio of all the companies belonging to that industry for that year. The estimated ratio improves the predictability of the logit model.

Another factor that gained significance is the institutional shareholding of a company. It is suggested that acquirers will not find it gainful to secure a firm with entirely dispersed shareholdings (Grossman and Hart, 1980). Subsequently, it is also affirmed that possession of large shareholders expedites acquisitions (Shleifer and Vishny, 1986). Subsequently, institutional shareholding is included as a new parameter to investigate the impact of various takeover defenses and it is reported that the likelihood of winning an acquisition is positively inclined to the tangible assets and negatively related to the size of the firm and net alteration in institutional holdings (Ambrose and Meggison, 1992). Following that, in 1994, it has been identified that industry competitive factors, operating strategy and the competitive position of the target form the systematic constitution for formulation of M&A assessment norms (Ernst and Young, 1994).

Another contributing factor towards pre-acquisition analysis of targets is the size of the target firm. It is argued that institutions of large size are less opted for takeover owing to the incurring of high capital and the concerns associated with restructuring (Benston *et al.*, 1995). It is also reported that the primary difference between the operational performance of the target firms involved in a merger is grounded on its size. This is because the firms chosen as targets tend to be smaller with respect to the total assets when compared to the other companies in the same industry (Pawaskar, 2001). On the contrary to the observations reported by (Byrd and Stammer, 1997; Benston, 1995; Hunter and Komis, 2000), investigations also indicate instances wherein the acquirers prefer those firms that possess a strong financial background as targets rather than those that will not be able to give deep dept capability to them.

Takeover targets are most likely to be (i) smaller in size (ii) existing since a longer period of time (iii) characterized with lower Tobin's Q (iv) investing very low portion of its earnings (v) exhibiting slower development (vi) manifested with lower ownership as it may not be managed by the family of the establisher (Morek *et al.,* 1987). Then, an empirical investigation performed on oil industry has identified that target firms are lower in terms of market valuation but stronger as regards to managerial holding when compared to the firms that are not chosen as targets (Jucunda, 2014; Byrd and Johan, 1997). After that, it has been re-emphasized that firms which are targeted for takeover characterize lower gains and valuation than other firms involved in the same industry (AlcadeNuria and Espitia Manuel, 2003). The general inference from the investigations grounded on US and UK markets indicates that small-sized companies with low market valuation are preferred to be considered as targets owing to the gain post-acquisition than other firms in the same sector.

Subsequently according to a report in 2016, it is indicated that growth, profitability, leverage, size, liquidity and valuation determines whether a firm can be a preferred target or a non-target (Moeller &Vitkova, 2016). In the case of growth rate, firms with higher growth rate have high chances of being considered as targets. In the context of profitability, private targets are more profitable that private non-targets whereas public targets are less profitable that public non-targets. In the aspect of leverage private targets tend to exhibit high leverage than private non-targets while on the contrary public targets demonstrate low leverage than public non-targets. While investigating from the facet of size, smaller private firms and larger public firms are deemed as targets while larger private firms and smaller public firms are regarded as non-targets. From the dimension of liquidity, target forms possess low levels of liquidity as against the non-targets. In the case of valuation, firms with lower valuation are preferred as targets.

Having mentioned the characteristics of targets and non-targets, the next sub-section highlights the difference in pre-acquisition characteristics between the cross-border and domestic deals.

Interpretation of Difference in Pre-acquisition Facet of Inbound and Domestic Acquisitions from the Buyers' Stand

There exist remarkable distinctions between cross-border and domestic target acquisitions because the motivation behind these takeovers is different. As per most of the previous studies, cross-border acquisitions by developed nations intend to expand their market by investing in high performing foreign target firms while domestic acquisition aims to gain corporate control through investing on unremarkably performing domestic firms. As per an analysis in firms of US market (Chen & Su, 1997), cross-border targets are identified as financially weak when compared to that of firms that are preferred as targets within their nation. This observation justifies the significance of incorporating logit model rather than the random model. Another investigation on 168 Greek originated manufacturing firms reports that firms outside Greek prefer large Greek firms with huge product differentiation and high liquidity as targets while companies within Greek favor smaller indigenous firms (Antonios Georgopoulos, 2007). Results depict that acquiring firms have greater size, superior assets position and supervision. Yet another study on 1171 domestic and 537 cross-border takeovers of publicly listed firms in 20 emerging nations has adopted Wilcoxon Z, Multinomial and Binary Regression for analysis (PengChengZhu, 2010). The study reports that the target firms preferred by abroad countries perform better than the target companies favored by the firms of the host country before acquisition takes place. In addition it is revealed that domestic partial acquisition facilitates corporate control whereas cross-border partial acquisitions are driven by the logic grounded on 'strategic market entry'. In terms of the bidder, who is interested in acquisition, it can be stated that acquirer who prefer abroad targets will probably be large sized and produce huge gains when compared to the acquirer who prefer targets within the same country (Caiazza, 2014). Another investigation has been made on factors determining the domestic versus cross-border acquisitions in the pharmaceutical industry (Tannista Banerjee and ArnabNayak, 2015). The findings exhibit that the firms seeking cross-border acquisitions usually favor the pharmaceutical firms that characterize fewer drug license since previous five years yet presenting R&D expenses on the rising trend.

Though there are numerous works in M&A, studies related to cross-border M&As alone are very scarce. Although, many studies analyse cross-border and domestic M&A activities in developed countries, only a few studies focus on M&A processes in emerging economies.

Understanding the Differences in Investors' strategies in Developed and Emerging Economies during Takeovers

Theories formulated for developed economies may not be appropriate for the emerging economies as unlike the developed countries, the emerging ones have only recently opened up their economies to the global markets. They are still at various stages of achieving complete market orientation (Hoskisson, *et al.,* 2000). Privatization of state owned enterprises in these countries is still evolving. In 2002, it has been stated that emerging economy varies from developed economy in different aspects such as taxes and transaction costs, cash flow, transparency to financial particulars and process of governing (Bruner, *et al.,* 2002).

Barriers of entry and size of the industry plays a key role in driving cross-border acquisitions into the country (Rossi and Volpin, 2004). Bidders from different country than that of the target favor targets from those countries wherein the rules and regulations associated with investor protection are very relaxed.

Then, a MAARC M&A maturity index has been formulated using various factors portraying diverse aspects of different countries (Anna Faelten, *et al.*, 2012), The index reveals the economic impact of the country on its M&A activities. This index indicates that developed nations such as United States fit into the matured stage of M&A operations. While considering India, it falls under the emerging operation category. The investigation asserts that the determinants for M&A vary according to the maturity index. Hence factors influencing M&A in US and India should be different. Therefore, as regards to making a choice of the target firms, economies of the acquirer and the target nation has to be taken into account. For instance, in a country like India that characterizes high probability of cost minimization and gain maximization, companies outside India eye for prospects to venture into Indian market. In the same year, it has been advocated that shareholding trends influence the acquisition regardless of the financial particulars of the companies. For countries like India, the average promoter shareholding is very high compared to other developed economies (ParamaBarai and PitabasMohanty, 2012). Thus, shareholding should be considered as one of the main factors, while conducting empirical research on Indian economy. Hence, in India, one has to select the variables based on the macro-economic factors.

Having made a strategic decision of becoming global, it is preferred to start a venture from the budding level in its life cycle in the view of cost minimization (Acs, Z. J., & Terjesen, S. 2013). Based on a meta-analysis (Maria Evelyn Jucunda, 2014) performed in 2014, it has been reported that many countries adopt the theories from the west in their emerging markets and has found them to be insignificant for their markets. An analytical study done in 2015 (Abhishek, 2015) has identified that the driving factors of Foreign Direct Investment in India are coherent and steady principle of actions, financial particulars, low-cost human resource, fundamental infrastructure, unexplored markets and availability of natural resources. Again in the same year, it has been established that target country's investor protection, laws and legal systems, accounting and tax provisions, economic development,progress in financial markets, geographical, political and cultural factors play a significant role in inbound acquisition (KotapatiSrinivasa Reddy, 2015).

Thus the study on M&A activities in India differs from that of the other countries. Investigation of M&A processes specific to Indian economy is essential as the models for other countries may be inappropriate in Indian context.

Perception of Acquirer's Outlook on Acquisition in Indian Market

After considering all the above factors, it can be said that the scenario in Indian economy is different from that of western markets, which brings in the necessity to test the old theories of west and developing new models for developing economies. The market is not stable in emerging countries. These countries also have the risk of unstable political situations. Thus, theories and models applicable for developed economies may not hold good for developing economies. Though India also falls under the emerging category, the drastically increasing rate of economic growth attracts high probabilities of investment opportunities. Moreover, the long term growth of India remains intact and sound. Even after the impact of demonetization, which has been implemented in November, 2016, India is expected to reestablish the position of the fastest growing major economy in 2017. The main attraction for the venture capital and private equity markets in India is the trend of everlasting secular progress combined with the potential of internal consumption market.

Having said that, what strategies do the acquirers look into as well as adopt to enter into Indian Market?

According to the earlier studies, one would expect that foreign acquirers enter into Indian markets by acquiring well performing Indian firms. However India is different from developed countries in terms of unexplored markets, low cost structure, accounting transparency, liquidity and regulatory process compared to other countries. So, to study the M&A pre-acquisition performance in India, couple of factors has to be controlled to evolve new models.In Indian context, foreign acquirer would be more interested to acquire a domestic firm with good network connectivity, voluminous assets to explore markets and brands from a long-term perspective. In other words, transfer of technologies, managerial potential and better access to large Indian markets through sales affiliates can be the main objective. Since India is one of the largest markets in the world, distribution channel and firm assets (growth potential existing market shares) shall be the key factors. Pre-performance of target firm is irrelevant for the foreign acquirer.

In Indian context, it has been identified that the probability of an acquisition is directly proportional to the expected returns to shareholders (Panigrahi, 2004). Again, it is emphasized that the firms interested in acquiring exhibit superiority in sales, gain and liquidity when compared to the other companies of the same sector. On the other hand, the firms involved in merging exhibit strong financial performance (Kumar and Rajib, 2007). The results encouraged the 'market for control' strategy. It also inferred that efficient management and disciplinary initiatives stimulate the acquisitions in the Indian F&B industry. A prediction model incorporating logit regression is developed (Barai and Mohanty, 2012) for predicting the preferred targets for acquisition in India. The model demonstrates that the conventional determinating factors such as size and growth-resource are not appropriate and influencing in the Indian context.

On investigating the key factors of cross border mergers and acquisitions specific to each country, it can be advocated that favorable rules, regulations, policies and laws related to finance attract more inward acquisitions. Factors such as market size of the target, background of availability of natural resources, poorly formulated taxes regulations abate the variations between the developed and developing economies in terms of regulatory plans (Xie, Reddy, Liang, 2017).

Having presented on the pre-acquisition characteristics of target firms, it is realised that the emerging economy is different from developed economy and hence an exclusive research specific to emerging economy, with parameters selected according to the financial system of target country, is required. It is also realised that pre-acquisition characteristics of Target Firms during domestic and cross border acquisitions differ and thereby the differentiation has to be taken into account during the study. Models for other countries do not suit Indian market and hence research specific to Indian context has to be undertaken to understand the inbound and domestic acquisitions of India.

3. CONCLUSION

Merger and Acquisitions have been contributing towards inward flow of Foreign Direct Investment in India since a few decades. This study presents the differences in pre-acquisition characteristics of target firms during inbound and domestic acquisition.The study infers that the motivation, macro-economic factors, operating performance and size occupies a key role in determining the appropriate targets during inbound and domestic acquisitions.It can be realized that majority of the inbound acquisitions are motivated to invest on high performing firms while most of the domestic acquisitions prefer low performing companies. The macro-economy particulars characterizing country, industry and firm level factors such as GDP, political stability, inflation, environment for foreign investment, tobin-q etc., have a significant influence on selecting the targets during acquisition. Also, the operating performance of a firm estimated through the financial parameters, institutional shareholdings, tangible assets and liquidity exerts a considerable influence in favoring a target. The size of the firm also plays an important role in determining the chance of being a target. Most of the researchers conjecture that small sized firms are preferable to become targets. Broadly, in many scenarios, firms with lower valuation and lower ownership are chosen as targets when compared to other firms in the same sector. Further, the study analyses the research gaps in this area over the past years especially in emerging economics context. There has not been high distinction in study between the domestic and inbound acquisitions as well as the developed economy and emerging economy. India, though being an emerging economy nation, exhibits high economic growth making it a preferable choice to foreign acquirers. The strong network connectivity, high distributivity, voluminous assets, rich natural resources and unexplored markets make it a widely favored choice for acquisition. M&A being an important source of income to the country, exclusive study on M&A in Indian Market is still in the very budding stage. Further, the study provides the scope of further research in this area.

4. SCOPE FOR FUTURE RESEARCH

The primary inference of the theoretical and empirical literature, which can serve as propositions for further empirical testing are stated as follows. The study on pre-acquisition characteristics revealed that emerging economies differ from developed ones and therefore, research on emerging economy and the influence of macroeconomic factors on M&A decisions is lacking. Emerging economies are still opening up to the market and has highly unexplored market, which can be taken advantage of. During investigation of targets and non-targets, most of the previous research works have not excluded shell companies while selecting samples for empirical research. These companies are frequently seen as a target as they facilitate a readymade platform for listing the unlisted firms of the acquirer. This is profitable only when the market conditions are not favorable. In emerging economies,the influence of shell companies is high due to low regulatory compliance. Moreover, due to its nil business and limited assets, these companies tend to show an increased debt ratio (because of negative or low net worth) and low valuation. Hence it may influence the results of the investigation greatly. Thus, while selecting the samples (Target & Non-targets) shell companies should be excluded from the samples. It is also realized that the domestic and cross-border acquisition should be differentiated during study as the pre-acquisition strategies vary for both. Further it has been found that, Investigation on the impact of acquisitions on the operating performance of Indian targets firms (by differentiating the Domestic and cross border acquisitions) is virtually non-existent in the previous literature. Thus, there exists opportunities for more research and study in this area. The study and future implications are of high significanceas the M&A will continue to remain as one of the most important ways for foreign firms to invest in India.

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