ACQUISITION PERFORMANCE IN THE PRESENCE OF PRINCIPAL-PRINCIPAL CONFLICTS: EVIDENCE FROM INDIA

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Abstract: I investigate acquisition performance as measured from the announcement returns in the presence of principal-principal conflicts in the context of the emerging market deals. I study the effect of ownership concentration of Indian acquirers on shareholder wealth in the acquisitions done from 2001 to 2015. Higher ownership concentration, a potential remedy for principal-agent conflicts in widely held public corporations, is a major concern of corporate governance in many countries. I observe that the presence of higher equity-holdings with corporate-bodies-as-promoters leads to lower shareholder-wealth gains around M&A deal announcements. This evidence supports the proposition that there is a presence of principal-principal conflicts in Indian firms, and it significantly affects acquisition performance as measured from the announcement returns. However, the involvement of financial sponsors on either buy-side or sell-side in M&A transaction creates significant shareholder-value.

Keywords: Mergers and acquisitions, principal-principal conflicts, financial sponsor, emerging markets, ownership concentration, India.

JEL Classification: Codes: G34, G32.

1. INTRODUCTION

The classic agency problems often arise from dispersed ownership of a public corporation. Such conflicts have been at the centre of the wide body of empirical research in corporate governance. Agency costs and managerial opportunism are kept in check by using a combination of internal and external governance mechanisms (Fama & Jensen, 1983). Ownership concentration in the form of higher equity holdings by corporate insiders and managers is one such tool (Demsetz & Lehn, 1985) which can effectively align the objectives of the principals and the agents.

In many developed and developing countries there is high ownership concentration in the hands of a single shareholder, family or state (La Porta,

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Lopez-De-Silanes, & Shleifer, 1999; Morck, Wolfenzon, & Yeung, 2005), and such a structure often benefits the large shareholder. Ownership concentration may serve as an effective tool to address agency concerns in the Anglo-American context, where a public corporation is widely held. However, ownership structure in many economies like India, China, etc., gives rise to a new set of agency problems, which render the traditional corporate governance tools ineffective (Faccio, Lang, & Young, 2001).

A differentiating feature of Indian firms' ownership structure is the presence of promoters as the controlling shareholders in a firm. Promoters could be individuals, body corporates or associations that directly or indirectly control the affairs of a company (Companies Act, 2013). Pre-existing concentrated ownership and control may help ease principal-agent conflicts in such countries (Khanna & Palepu, 2000), but it leads to the emergence of a new form of agency conflict. Such firms have two sets of principals, i.e., promoter-managers with controlling power and the dispersed shareholders, which can give rise to the presence of principal-principal conflicts (PP conflicts) in the form of expropriation of minority shareholders by the controlling shareholders (Dharwadkar, George, & Brandes, 2000; Morck et al., 2005; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008).

This paper provides empirical evidence regarding the presence of pp-conflicts in the context of M&A transactions undertaken by Indian bidders. Stock market reaction to the deals announced by Indian acquirers with lower ownership concentration is significantly higher than to the deals done by bidders with higher ownership concentration. I observe that lower the ownership concentration with promoter-corporate bodies, greater is the share-holder value creation on deal announcements. The investors possibly do not see much value creation in the deals undertaken by firms with higher promoter ownership.

Furthermore, empirical literature on investments by PE firms suggests that such investors bring better corporate governance to investee firms (Wright, Amess, Weir, & Girma, 2009), which leads to better firm performance. In this study, I find evidence that supports this view in the Indian M & A context. I observe that when a financial sponsor is present, either on the buy-side or the sell-side, then Indian bidders create greater shareholder wealth, that is, the market reacts more positively to such events. This effect is significant even in the presence of other explanatory variables like insider ownership, and the relevant control variables like the deal and firm characteristics. Thus, my results support the hypothesis that financial investors provide value-creating monitoring benefits.

This study contributes to the ongoing discussion on the principal-principal conflicts as a major corporate governance concern for public corporations that are not widely held. This paper provides definitive evidence that indicates that M&A transactions done by bidders with high ownership concentration in the hands of promoters (corporate bodies) are value destroying. Investors express their disapproval on deal announcement for transactions conducted by highly concentrated bidders.

This paper is organized as follows: The next section presents the background literature and hypotheses; the third section presents the data and the methodology adopted; the fourth section presents and discusses results, and the fifth section presents the conclusions.

2. Literature and Hypotheses

Firms with higher insider ownership report higher abnormal returns on M&A deal announcements for transactions in the United States (Lewellen, Loderer, & Rosenfeld, 1985). This implies that ownership concentration acts as an effective tool that reduces agency conflicts by increasing management's equity ownership and thereby leading to better M&A performance on deal announcements. However, evidence to this effect is mixed; a later study (Loderer & Martin, 1997) does not find evidence to support this view. A similar contrary evidence is also observed in bank acquisitions, which indicates that agency conflicts are not completely reduced through mechanisms like higher ownership control (Cornett, Hovakimian, Palia, & Tehranian, 2003).

Furthermore, there is a greater likelihood of a curvilinear link between ownership concentration, i.e., equity ownership by corporate insiders, and firm value (McConnell & Servaes, 1990). It has been found that firms with ownership concentration beyond forty to fifty per cent in the hands of insider managers have negative impact on firm value.

Corporate ownership in many countries with weak shareholder protection is concentrated in the hands of a single shareholder, either a family or state, and the dominant shareholder(s) has greater controlling power than implied by his cash flow rights (Claessens, Djankov, & Lang, 2000; La Porta et al., 1999; Morck et al., 2005). Such a wedge between the controlling power and the cash flow rights is made possible through family ownership, pyramidal control structures, or cross-holdings. The High ownership concentration with one set of share holders, may benefit the large

shareholder at the cost of the minority and dispersed share holders. Such ownership structures, thus, give emergence to principal-principal conflicts (pp-conflicts) where controlling shareholder may expropriate wealth from minority shareholders (Morck et al., 2005; Young et al., 2008).

There is an emerging strand of empirical evidence that supports the 'pp-conflict' view of agency theory in the context of countries with higher ownership concentration. For instance, higher state-ownership in Chinese enterprises poses the aforementioned principal-principal conflict for its shareholders (Wu, Xu, & Phan, 2011). It has been empirically observed that higher state ownership in Chinese acquiring firms in cross border deals is associated with negative announcement returns (Chen & Young, 2010), since such firms are more likely to pursue state agenda(s) over value-maximization while doing such deals. Indian firms also have a similar yet different ownership structure.

Ownership in a large number of Indian firms is concentrated with promoters, and it is likely that such promoters also pursue expropriation of minority shareholders (Dharwadkar et al., 2000). It is observed that firms with higher ownership concentration might not improve firm performance (Bhaumik & Selarka, 2012). Hence, I hypothesize that bidding firms with lower ownership concentration in the hands of promoters would create greater shareholder wealth than their counterparts with higher ownership concentration.

Hypothesis 1. Bidders with lower ownership concentration with promoters have lesser potential for PP-conflicts, and hence deals done by such bidders would be received more positively.

The role played by active investors, financial sponsors and LBO (leveraged buyouts) specialists, has been well emphasized ever since the LBO wave of 1980s in the US. Investments by such financial sponsors in firms create organizations that are claimed to be much superior to a public corporation sans these investors (Jensen, 1989). The LBOs by private equity firms create economic value (Kaplan & Strömberg, 2009), and transactions initiated by large PE funds log positive abnormal returns (Acharya, Gottschalg, Hahn, & Kehoe, 2013). However, when financial buyers involve in M&A transactions they create less value than strategic buyers, since the former pay higher premiums, and have lower synergies (Healy, Palepu, & Ruback, 1997).

The empirical evidence on acquisitions by the financial versus strategic buyers is at best mixed. But, literature does acknowledge that PE funds, or financial sponsors, provide an effective incentive alignment mechanism, thereby improving corporate governance in their investee firms (Wright et al., 2009). Thus, I hypothesize that the presence of a financial sponsor or a buyout specialist on either side of the transaction, that is the buy-side or the sell-side, would enable better incentive alignment by providing greater monitoring of shareholder wealth. Therefore, deals where such investors are present should be more value-creating than the other deals.

Hypothesis 2. The presence of financial sponsor, either on the buy-side or the sell-side, would provide greater incentive for value creation, and hence such deals would be received more positively.

3. CONTROL VARIABLES

Business Group Affiliation: The majority of the firms in India are affiliated to business groups, and business group (BG) affiliation is known to affect firm performance (Khanna & Palepu, 2000). Hence, I control for business group affiliation using a dummy variable to differentiate group affiliated firms from the non-group stand-alone firms.

Method of payment: If the method of payment used in M&A transaction is stock then such deals attract negative investor reaction, whereas, cash deals attract positive investor reaction (Loughran & Vijh, 1997). Such deals signal potential overvaluation of the bidding firm and hence the bidding firms destroy value when they make stock offers. I control for this variable by identifying stock and cash deals using a dummy variable.

Relative Size: The greater the relative size of the target compared to the acquiring firm, higher are the deal related synergies, and this leads to better announcement returns. However, there is mixed evidence on this effect (Agrawal, Jaffe, & Mandelkar, 1992; Fuller, Netter, & Stegemoller, 2002; Loughran & Vijh, 1997).

Target Listing Status: Acquisitions that involve privately held targets attract better investor reaction on deal announcements (Fuller et al., 2002). I control for this effect using a dummy variable to differentiate between the listed and un-listed targets.

Relatedness: Corporate takeovers that involve targets in unrelated industries destroy shareholder wealth, whereas related acquisitions are more

value-creating (Walker, 2000). I identify related acquisitions by categorizing the acquirer and the target in Fama-French 49 industry classification.

Other controls: I also control for a bidding-firm's profitability in the year ended before the deal announcement. Percentage acquired is a deal characteristic that captures the stake acquired in the target company. I also control for the recession period, that is, year 2008, to test if the deals announced in that period were less value-creating than the ones done in normal years.

3.   SAMPLE SELECTION AND METHODOLOGY

My data comprises completed mergers and acquisitions done by Indian acquirers from 2001 to 2015. Since, the detailed data on promoter and other shareholdings are available from 2001 onwards for all the listed companies in India, the period of study starts from 2001. I have taken the data on M&A transactions by firms listed in India from the Thomson One database of Thomson Reuters. I have taken the company financial data from CMIE's Prowess database.

My data comprises domestic as well as cross-border deals undertaken by Indian firms. I have considered only the majority stake acquisitions, that is, the deals where the percentage of stake acquired is more than fifty. I have also applied a filter on the deal value. The deals with the transaction value below USD 1 million are excluded from my sample. Furthermore, the deals in which the transaction value is undisclosed are also excluded from my sample. I have excluded asset-acquisitions and deals done by financial services firms. I have also excluded deals with other confounding events like other M&A deal announcements during the event-window. I have considered only those deals for which the data is available on all the explanatory variables as well as the control variables.

The Table I describes the data and presents the summary statistics. Our sample comprises 268 completed deals announced between 2001 and 2015. The minimum deal value of our sample is USD 1 million, and the maximum is USD 3225.5 million. Firms in my sample have insider-ownership ranging from 0 per cent to 75 per cent. The distribution of data across years indicates that the M&A activity in India peaked in 2007 (Table II). All the variables, dependent as well as independent, are winsorized at 1 per cent.

Table I.
Data Description: Summary Statistics of Key Variables

This table presents summary statistics of key variables used in the regression models. The definitions of the variables are presented in Appendix.

Variables	Obs	Mean	Std. Dev.	Min	Max
CAR Day -1 to 0	268	0.0089	0.0469	-0.1231	0.1644
CAR Day -2 to 0	268	0.0102	0.0528	-0.1070	0.2064
Deal Value USD Million	268	98.32	297.85	1.0000	3225.51
Deal Value INR Million	268	4782.32	15757.05	45.33	196845.00
Promoters Indian Corporates	268	0.1866	0.2257	0.0000	0.7500
Financial Sponsor Involvement	268	0.1194	0.3249	0	1
Relative Size	268	0.3691	1.0570	0.0010	7.9050
Profitability	268	0.4971	1.6303	-0.1715	13.4525
Fin	268	0.1754	0.3810	0	1
Unrel_FF	268	0.4515	0.4986	0	1
Target Listing Status	268	0.1978	0.3991	0	1
Percentage Acquired	268	81.94%	20.86%	50.00%	100.00%
BG	268	0.6754	0.4691	0	1
Recession Year	268	0.0970	0.2965	0	1

Table II:
Year-Wise Distribution of The Regression Sample

Year	Number of Deals	Sum of the Deal Values (in USD Mn)
2001	8	98.58
2002	7	235.51
2003	12	486.13
2004	8	767.24
2005	27	794.25
2006	25	1300.67
2007	37	3742.33
2008	26	6108.67
2009	20	696.63
2010	26	1716.26
2011	26	1721.01
2012	14	2054.94
2013	9	639.86
2014	11	5703.04
2015	12	285.17

3.1 Event Study

I have used the standard event-study methodology to calculate shareholder wealth-effects of deal announcements (Brown & Warner, 1985; Kothari & Warner, 2007). The shareholder wealth effects are calculated as abnormal returns to an acquiring firm on deal announcements.

I have calculated the expected return for an acquirer's stock using the market model (model I) which estimates the intercept and slope coefficients for a stock when the returns are regressed on the returns of a broader market index.

$$E(R_{it}) = \alpha + \beta\ R_{mt} \tag{I}$$

I have used S & P BSE 500 index as the broader market index in model I. The estimation period for the market model is 250 days, which starts from the 280th day before the deal announcement date (i.e., t-280, if t is the event date) and ends on the 31st day before the deal announcement (i.e., t-31).

The abnormal returns are calculated for each day in the event window (model II). The abnormal return is the difference between the actual return of acquirer and the expected return for it on a given day t.

$$AR_{it} = R_{it} - E(R_{it}) \tag{II}$$

The event window length is represented by T, and the abnormal returns of each day are cumulated over the event window to calculate the cumulative abnormal returns (CARs) for an acquirer I (model III).

$$CAR_i^T = \sum_{t=t_1}^{t_2} AR_{it} \tag{III}$$

I have calculated the cumulative abnormal returns over two different event windows, one window spans from the day before the event, i.e., t–1 (or day –1), to the event day, i.e., t (day 0). The second window spans from two days before a deal announcement (t–2, or day –2), to the event day t.

3.2 Cross Sectional Regression

To study the impact of ownership concentration with promoters, and the effect of the involvement of a financial sponsor, on M&A performance, I conduct a cross sectional regression analysis using the ordinary least squares approach. I estimate the regression model (model IV and model V) with heteroscedasticity consistent robust standard errors.

$$CAR_i^T = \beta_1 Insider\ Ownership_i + \beta_2 Relative\ Size_i + \beta_3 Profitability_i$$
$$+ \beta_4 Fin_i + \beta_5 Relatedness_i + \beta_6 Target\ Listing\ Status_i$$
$$+ \beta_7 Percentage\ Acquired_i + \beta_8 BG\ Dummy_i + \beta_9 Recession\ Year_i$$
$$\text{(IV)}$$

$$CAR_i^T = \beta_1 Insider\ Ownership_i + \beta_2 Financial\ Sponsor\ Involvement_i$$
$$+ \beta_3 Relative\ Size_i + \beta_4 Profitability_i + \beta_5 Fin_i + \beta_6 Relatedness_i$$
$$+ \beta_7 Target\ Listing\ Status_i + \beta_8 Percentage\ Acquired_i$$
$$+ \beta_9 BG\ Dummy_i + \beta_{10} Recession\ Year_i \qquad \text{(V)}$$

The dependent variable in models IV and V is the cumulative abnormal return, CAR_i^T, observed over two days, day t–1, the day prior to the event day, and the day t, the event day. I have also conducted a robustness test by using the cumulative abnormal return over three days, i.e., t–2 to t, as the dependent variable.

One of the key independent variables of interest is *Insider Ownership* which measures the stake held by insiders, that is, promoters. I measure this proxy by considering overall equity ownership by all promoters, and equity ownership held by Indian corporate bodies as promoters. Since, I do not find any significant relation between the former and deal performance, I report results only for the effect of the latter on deal performance.

The *Financial Sponsor Involvement* is the second variable of interest in this study. If there is financial sponsor involvement on the buy-side or on the sell-side, then this variable take value 1, otherwise it takes value 0.

The *Relative Size* is the size of the deal relative to the size of the acquirer. I have measured this variable as the ratio of deal vale and acquiring firm's total assets. *Profitability* is measured as the operating profit margin, that is, the profit before depreciation, interest, taxes and amortization, divided by total sales. The *Fin* is a dummy variable that captures the method of payment used in a deal; it takes value 1 if stock was used as the consideration, and it takes value 0 if cash was used as the consideration in a deal.

Relatedness measures whether the target firm is in a related industry or in an unrelated industry. I employ a dummy variable which takes value one if the target is in an unrelated industry based on Fama-French 49 industry classification. Similarly, *Target Listing Status* is a dummy variable that takes value 1 if the target company is a listed firm, otherwise it takes value 0. *Percentage Acquired* is the percentage of stake acquired by the acquiring firm in the target company. *BG Dummy* is a dummy variable that takes value 1 if the acquiring firm is affiliated with a business group, otherwise it takes value

0. The majority of the firms in India are affiliated to business groups, hence I control for this ownership characteristic which is unique to Indian firms. The *Recession Year* is a dummy variable that controls for the effect of recession year – 2008.

4. RESULTS AND DISCUSSION

The pairwise correlation matrix presented in the Table III indicates that insider-ownership, as measured by the holdings of Indian-corporates-as-promoters, has negative correlation with the cumulative abnormal return, but the relative size proxy and profitability measures have a positive correlation with the latter.

The Table IV presents the regression results, where greater insider ownership is observed to have a negative effect on shareholder wealth on deal announcements. Insider ownership in the hands of corporate-bodies-as-promoters has a significant and negative effect on abnormal returns as observed over the event window of two days (day -1 to day 0). This result is in contradiction to earlier empirical studies that associate higher managerial stake with greater wealth creation (Healy et al., 1997). I do not find any significant relationship between overall promoter holdings and acquisition performance, however, the relationship between holdings of corporate bodies, which are promoters, and abnormal returns, is significant and negative (as reported in the Table IV and V).

TABLE III.
PAIRWISE CORRELATION MATRIX OF KEY VARIABLES

This table presents the pairwise correlation coefficients of the key continuous variables used in the regression analysis. The definitions of these variables is presented in Appendix.

Variables	CAR Day -1 to 0	CAR Day -2 to 0	Deal Value (USD Mn)	Promoters Indian Corporates	Relative Size	Profitability	Percentage Acquired
CAR Day -1 to 0	1						
CAR Day -2 to 0	0.84	1					
Deal Value (USD Mn)	-0.01	0.02	1				
Promoters Indian Corporates	0.10	0.08	0.25	1			
Relative Size	0.13	0.16	0.11	0.01	1		
Profitability	0.14	0.13	0.07	0.21	0.00	1	
Percentage Acquired	0.06	0.08	0.11	0.08	0.05	0.04	1

TABLE IV.
CROSS-SECTIONAL OLS REGRESSION ANALYSIS

*This table presents the results of the cross-sectional OLS regression analysis used to determine the impact of ownership concentration in the hands of Indian corporate bodies as promoters on shareholder wealth on deal announcements. The dependent variable is cumulative abnormal return over two day event window, i.e., day -1 to day 0 (the event day). The VIFs of the model are within the permissible limits. All the variables are winsorized at 1%. The full version of the models is discussed in the methodology section. The p-values are inbrackets. * p<0.1, **p<0.05, ***p<0.01. The definitions of the variables are presented in the Appendix.*

Variables	Model I	Model II	Model III	Model IV	Model V	Model VI
Promoters Indian Corporates	-0.0208*	-0.0204*	-0.0280**	-0.0284**	-0.0278**	-0.0240*
	[0.084]	[0.090]	[0.025]	[0.026]	[0.032]	[0.067]
Relative Size		0.00308*	0.00314**	0.00308*	0.00297*	0.00333**
		[0.054]	[0.050]	[0.050]	[0.061]	[0.036]
Profitability			0.00497***	0.00519***	0.00521***	0.00557***
			[0.000]	[0.000]	[0.000]	[0.001]
Fin				-0.0035	-0.0036	-0.0040
				[0.740]	[0.737]	[0.703]
Unrel_FF				-0.0068	-0.0070	-0.0061
				[0.243]	[0.231]	[0.297]
Target Listing Status				0.0063	0.0065	0.0085
				[0.401]	[0.396]	[0.274]
Percentage Acquired				-0.0007	-0.0007	-0.0008
				[0.460]	[0.460]	[0.389]
BG					-0.0017	-0.0016
					[0.803]	[0.814]
Recession Year						-0.0211**
						[0.029]
Constant	0.0128***	0.0207***	0.0198***	0.0240***	0.0249**	0.0266***
	[0.001]	[0.002]	[0.003]	[0.005]	[0.010]	[0.006]
N	268	268	268	268	268	268
R-sq	0.0100	0.0240	0.0530	0.0620	0.0620	0.0790
Adj. R-sq	0.0060	0.0170	0.0420	0.0360	0.0330	0.0470
F	3.0050	2.8190	5.8750	2.9160	2.5470	2.6760
p-value	0.0842	0.0615	0.0007	0.0059	0.0110	0.0055

Ownership concentration is one of the tools used to reduce the principal-agent conflicts in the Anglo-American context where the public corporation is widely held. However, given that ownership concentration is a pre-existing condition in Indian firms, this tool becomes ineffective since the agency problem present in such a context is of a different type. Conflicts between the two sets of principals, insider-owners, and the dispersed owners, make the traditional corporate governance tools ineffective (Faccio et al., 2001). This evidence of negative association, between the promoters and the cumulative abnormal returns on deal announcements, implies that bidding firms with lower promoter ownership create greater wealth for their shareholders. Such companies with lower promoter ownership have a lower likelihood of principal-principal conflicts, and thus have a lower potential for shareholder wealth expropriation.

An earlier study in the context of US suggests that there is a likelihood of a curvilinear link between ownership concentration and firm value (McConnell & Servaes, 1990). Similarly, a study on principal-principal conflicts in the emerging markets, indicates that a similar curvilinear relationship exists between insider-ownership and bidding firm's risk-taking behavior (Ladkani & Banerjee, 2016). I do not observe any non-linearity in the relation between promoter ownership (corporate bodies) and acquisition performance on deal announcements.

Relative size, measured as the deal value relative to the size of the acquiring firm's total assets, is observed to have a positive effect on the announcement returns. The larger the size of the acquisition as compared to the acquiring firm, the greater value such a deal creates on the announcement. This evidence is contrary to the size effect observed in the literature (Agrawal et al., 1992), however, it is partially consistent with the literature on the size effect for private targets (Fuller et al., 2002).

TABLE V.
CROSS-SECTIONAL REGRESSION ANALYSIS - AUGMENTED MODELS WITH
FINANCIAL SPONSOR INVOLVEMENT

This table presents the results of the cross-sectional OLS regression analysis used to determine the impact of ownership concentration in the hands of Indian corporate bodies as promoters on shareholder wealth on deal announcements. The dependent variable is cumulative abnormal return over two day event window, i.e., day -1 to day 0 (the event day).The VIFs of the models are within the permissible limits.All the variables are winsorized at 1%.The full version of the models is discussed in the methodology section. The p-values are in brackets. * p<0.1, **p<0.05, ***p<0.01. The definitions of the variables are presented in the Appendix.

Variables	Model I	Model II	Model III	Model IV	Model V
Promoters Indian Corporates	-0.0214*	-0.0289**	-0.0293**	-0.0283**	-0.0247*
	[0.075]	[0.020]	[0.021]	[0.028]	[0.059]
Financial Sponsor Involvement	0.0171*	0.0170*	0.0160*	0.0164*	0.0155*
	[0.054]	[0.055]	[0.067]	[0.060]	[0.069]
Relative Size	0.00297*	0.00302*	0.00292*	0.00274*	0.00310**
	[0.060]	[0.056]	[0.058]	[0.077]	[0.046]
Profitability		0.00495***	0.00510***	0.00513***	0.00548***
		[0.001]	[0.001]	[0.001]	[0.001]
Fin			-0.0016	-0.0017	-0.0023
			[0.876]	[0.871]	[0.829]
Unrel_FF			-0.0050	-0.0054	-0.0046
			[0.382]	[0.352]	[0.426]
Target Listing Status			0.0053	0.0055	0.0075
			[0.477]	[0.464]	[0.331]
Percentage Acquired			-0.0008	-0.0008	-0.0009
			[0.392]	[0.390]	[0.330]
BG				-0.0028	-0.0026
				[0.688]	[0.704]
Recession Year					-0.0203**
					[0.042]
Constant	0.0186***	0.0177***	0.0213**	0.0227**	0.0244***
	[0.005]	[0.007]	[0.010]	[0.016]	[0.010]
N	268	268	268	268	268
R-sq	0.0380	0.0670	0.0730	0.0740	0.0900
Adj. R-sq	0.0270	0.0520	0.0450	0.0420	0.0540
F	2.8360	5.0100	2.9080	2.5960	2.9170
P	0.0386	0.0007	0.0040	0.0070	0.0018

TABLE VI.
CROSS-SECTIONAL REGRESSION ANALYSIS - ROBUSTNESS TEST WITH AUGMENTED MODELS INCLUDING FINANCIAL SPONSOR INVOLVEMENT

*This table presents a robustness test of cross-sectional OLS regression analysis used to determine the impact of ownership concentration in the hands of Indian corporate bodies as promoters on shareholder wealth on deal announcements. The dependent variable is cumulative abnormal return over two day event window, i.e., day -2 to day 0 (the event day).The VIFs of the models are within the permissible limits.All the variables are winsorized at 1%.The full version of the models is discussed in the methodology section. The p-values are in brackets. * p<0.1, **p<0.05, ***p<0.01. The definitions of the variables are presented in the Appendix.*

Variables	Model I	Model II	Model III	Model IV	Model V	Model VI
Promoters Indian Corporates	-0.0191	-0.0184	-0.0258*	-0.0272*	-0.0279*	-0.0254*
	[0.171]	[0.185]	[0.075]	[0.064]	[0.065]	[0.097]
Financial Sponsor Involvement	0.0188*	0.0178*	0.0177*	0.0186*	0.0184*	0.0177*
	[0.080]	[0.087]	[0.090]	[0.072]	[0.079]	[0.087]
Relative Size		0.0046**	0.0046**	0.00417**	0.00429**	0.00454**
		[0.017]	[0.016]	[0.024]	[0.019]	[0.014]
Profitability			0.0048***	0.00477***	0.00475***	0.00499***
			[0.007]	[0.009]	[0.009]	[0.008]
Fin				0.0060	0.0061	0.0057
				[0.595]	[0.593]	[0.616]
Unrel_FF				-0.0023	-0.0020	-0.0015
				[0.723]	[0.760]	[0.824]
Target Listing Status				-0.0023	-0.0024	-0.0010
				[0.785]	[0.774]	[0.902]
Percentage Acquired				-0.0012	-0.0012	-0.0013
				[0.248]	[0.250]	[0.225]
BG					0.0019	0.0020
					[0.803]	[0.791]
Recession Year						-0.0141
						[0.138]
Constant	0.0115***	0.0234***	0.0226***	0.0255***	0.0246**	0.0258**
	[0.009]	[0.002]	[0.003]	[0.007]	[0.022]	[0.018]
N	268	268	268	268	268	268
R-sq	0.0190	0.0440	0.0660	0.0730	0.0730	0.0790
Adj. R-sq	0.0120	0.0340	0.0520	0.0440	0.0410	0.0430
F	2.1540	2.9290	3.8890	2.1510	1.9150	2.1330
p-value	0.1180	0.0342	0.0044	0.0317	0.0502	0.0225

I observe that bidders with better prior deal profitability in terms of operating profit margins, create greater value. I do not observe any significant effect of the method of payment, i.e., stock payment versus cash payment on announcement returns. The effect on the method of payment is negative for stock deals and positive for cash deals, however, it is not significant.

Acquisitions that involve private targets create value more value than those that involve publicly listed firms. However, in this study I do not find any significant effect of the target firm's listing status on shareholder value creation. As per empirical literature on the effect of business group affiliation on firm performance, I expect the BG affiliation to have a significant impact on value creation, however, I do not find any evidence to support this conjecture. The deals that are announced in 2008 destroyed shareholder value on announcements.

The table V presents the results for the regression models that test the significance of the presence of the financial sponsor in a deal. I observe that the financial sponsor involvement in M&A deals in India has a significant positive effect on shareholder-wealth on deal announcements. This result is an indication that the governance role served by financial sponsor creates value when firms undertake M&A deals. This result suggests that financial sponsor involvement could be one of the tools that public corporations could adopt to address the new form of agency conflicts faced by them.

The results for financial sponsor involvement are significant despite controlling for other explanatory and control variables. I observe that the negative effect of insider ownership is persistent even after I control for the involvement of financial sponsor. The results on other independent and control variables are consistent for the models reported in TableI VI and Table V.

The results presented in Table VI have the cumulative abnormal returns captured over three day event window, that is, from the day -2 to the day 0. I have re-examined the significance of the key explanatory variables by changing the length of the event window for calculating the cumulative abnormal return. It is likely that the results are sensitive to the choice of event window, however, the results as shown in Table VI suggest that the key explanatory variables as well as the control variables have similar significance levels (except for model I and model II in Table VI). This indicates that the results on the insider-ownership and the involvement of financial sponsor, including other control variables, are significant even

when a different event window is considered for capturing the acquisition performance on deal announcements.

5. CONCLUSION

The concentrated ownership structure, as evident in Indian firms, gives rise to principal-principal conflicts which result in shareholder value loss on M&A deal announcements. As observed in this study, when Indian bidders with lower promoter ownership in the hands of promoter-corporate bodies undertake M&A transactions, the market reacts more positively to such events, compared with the deals undertaken by the bidders with high promoter ownership. This effect is persistent in the presence of other explanatory variables that are known to impact shareholder-wealth on deal announcements. However, the presence of a financial sponsor on either the buy-side or the sell-side in M&A deal brings better governance to such deals, and the market perceives such transactions as positive NPV (net present value) investments.

The principal-principal conflicts are a major corporate-governance concern for public corporations with concentrated ownership and weak investor protection. This paper highlights that the new form of agency-conflicts adversely affects acquisition performance since investors perceive such transactions as value destroying. Value creation, however, is associated with the involvement of financial sponsors, and that could be one of the tools such public corporations could adopt to keep the pp-conflicts in check.

6. ACKNOWLEDGEMENTS

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Appendix
Variable Definitions

This table presents the definitions of dependent and independent variables used in the study.

Variable	Definition
CAR	Cumulative abnormal return
Winsorization	All the continuous variables are winsorized at 1 per cent
Promoters Indian Corporates	Percentage of shares held by Indian corporate bodies as promoters
Financial Sponsor Involvement	If there is financial sponsor activity on the buy-side or the sell-side as defined by Thomson one database
Relative Size	This variable measure the relative deal size. The variable is measured as the log of - deal size in INR divided by the Total Assets of the Acquirer.
Profitability	Profitability is measured as profit before depreciation interest taxes and amortization divided by Sales
Fin	Fin is a dummy variable to indicate the method of payment used in an M&A deal. This variable takes value 1 if it is a stock deal, and it takes value 0 if it is a cash deal.
Unrel_FF	This is a dummy variable that takes value 1 if the deal is in an unrelated industry, otherwise it takes value 0. The relatedness / un-relatedness is measured as per the Fama-French Industry classification.
Target Listing Status	This is a dummy variable that indicates the listing status of the target firm. It takes value 1 if the target firm is listed, otherwise it takes value 0.
Percentage Acquired	This variable measures the percentage of stake acquired in the target firm. This variable is transformed by taking one by cubic transformation of the reported value.
BG	This variable takes value 1 if the acquiring firm is affiliated to any Business group in India, otherwise it takes value 0.
Recession Year	This variable captures the effect of the recession year 2008