

WORKING PAPER

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Acquisition Value Creation in Emerging Markets: An Empirical Study of Acquisitions in India

In the last few years as many emerging markets have liberalized, acquisitions have become an important means to achieve competitive advantage and growth for firms that participate in these markets. Yet, there is very little research that examines whether these acquisitions have created value for firms in these markets and whether the value creation patterns and drivers are similar or different than what has generally been observed in developed markets. This study takes an initial step to address these issues. It shows that emerging market acquisitions, on average, create value for both acquiring and target firms. Both acquirer identity and acquisition relatedness also seem to have a significant impact on acquisition value creation in these markets; these relationships are, however, contingent upon the period in which the acquisition was done. In the immediate period following liberalization, MNC acquirers create significantly greater value in their acquisitions than local acquirers. Similarly during this time, acquisition relatedness seems to offer comparatively little benefit in terms of acquisition value creation. But as liberalization evolves in these markets, we notice some important changes: First, although MNC acquirers continue to earn higher returns to acquisitions than local acquirers, their relative advantage reduces substantially. Second, related acquisitions, on the other hand, create much greater value than unrelated acquisitions in the later periods following liberalization. We use India, which is one of the most important emerging markets in recent years, as a context to examine the patterns and drivers of acquisition value creation.

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